

Targa Resources Corp.
Form 10-Q
May 04, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended March 31, 2012

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number: 001-34991

TARGA RESOURCES CORP.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

20-3701075
(I.R.S. Employer Identification No.)

1000 Louisiana St, Suite 4300, Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

(713) 584-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

Edgar Filing: Targa Resources Corp. - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
R

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No R.

As of May 1, 2012, there were 42,441,793 shares of the registrant’s common stock, \$0.001 par value, outstanding.

PART I—FINANCIAL INFORMATION

<u>Item 1. Financial Statements.</u>	4
<u>Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011</u>	4
<u>Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011</u>	5
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011</u>	6
<u>Consolidated Statement of Changes in Owners' Equity for the three months ended March 31, 2012</u>	7
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	43
<u>Item 4. Controls and Procedures.</u>	46

PART II—OTHER INFORMATION

<u>Item 1. Legal Proceedings.</u>	47
<u>Item 1A. Risk Factors.</u>	47
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	47
<u>Item 3. Defaults Upon Senior Securities.</u>	47
<u>Item 4. Mine Safety Disclosures.</u>	47
<u>Item 5. Other Information.</u>	47
<u>Item 6. Exhibits.</u>	48

Table of Contents

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Targa Resources Corp.'s (together with its subsidiaries, other than Targa Resources Partners LP, collectively "we," "us," "Targa," "TRC," or the "Company") reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements." You can typically identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, by the use of forward-looking words, such as "may," "could," "project," "believe," "anticipate," "expect," "estimate," "potential," "plan," "other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Known risks and uncertainties include, but are not limited to, the risks set forth in "Part II-Other Information, Item 1A. Risk Factors." of this Quarterly Report on Form 10-Q ("Quarterly Report") as well as the following risks and uncertainties:

- Targa Resources Partners LP's (the "Partnership") and our ability to access the debt and equity markets, which will depend on general market conditions and the credit ratings for our debt obligations;
 - the amount of collateral required to be posted from time to time in the Partnership's transactions;
- the Partnership's success in risk management activities, including the use of derivative instruments to hedge commodity risks;
 - the level of creditworthiness of counterparties to transactions;
- changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment;
- the timing and extent of changes in natural gas, natural gas liquids ("NGL") and other commodity prices, interest rates and demand for the Partnership's services;
 - weather and other natural phenomena;
- industry changes, including the impact of consolidations and changes in competition;
 - the Partnership's ability to obtain necessary licenses, permits and other approvals;
- the level and success of oil and natural gas drilling around the Partnership's assets and its success in connecting natural gas supplies to its gathering and processing systems and NGL supplies to its logistics and marketing facilities;
- the Partnership's and our ability to grow through acquisitions or internal growth projects and the successful integration and future performance of such assets;

Edgar Filing: Targa Resources Corp. - Form 10-Q

- general economic, market and business conditions; and
- the risks described elsewhere in “Part II-Other Information, Item 1A. Risk Factors.” of this Quarterly Report, our Annual Report on Form 10-K for the year ended December 31, 2011 (“Annual Report”) and our reports and registration statements filed from time to time with the United States Securities and Exchange Commission (“SEC”).

Table of Contents

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Quarterly Report will prove to be accurate. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in “Part II-Other Information, Item 1A. Risk Factors.” in this Quarterly Report and in our Annual Report. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise.

As generally used in the energy industry and in this Quarterly Report, the identified terms have the following meanings:

Bbl	Barrels (equal to 42 gallons)
Btu	British thermal units, a measure of heating value
BBtu	Billion British thermal units
/d	Per day
/hr	Per hour
gal	U.S. gallons
LPG	Liquefied petroleum gas
MBbl	Thousand barrels
MMBbl	Million barrels
MMBtu	Million British thermal units
MMcf	Million cubic feet
NGL(s)	Natural gas liquid(s)
NYMEX	New York Mercantile Exchange
GAAP	Accounting principles generally accepted in the United States of America
NYSE	New York Stock Exchange
Price Index	
Definitions	
IF-NGPL MC	Inside FERC Gas Market Report, Natural Gas Pipeline, Mid-Continent
IF-PB	Inside FERC Gas Market Report, Permian Basin
IF-WAHA	Inside FERC Gas Market Report, West Texas WAHA
NY-WTI	NYMEX, West Texas Intermediate Crude Oil
OPIS-MB	Oil Price Information Service, Mont Belvieu, Texas

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

TARGA RESOURCES CORP.
CONSOLIDATED BALANCE SHEETS

	March 31, 2012	December 31, 2011
	(Unaudited) (In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$121.2	\$145.8
Trade receivables, net of allowances of \$2.1 million and \$2.4 million	462.6	575.7
Inventory	45.5	92.2
Deferred income taxes	-	0.1
Assets from risk management activities	40.5	41.0
Other current assets	6.4	11.7
Total current assets	676.2	866.5
Property, plant and equipment	3,920.2	3,821.1
Accumulated depreciation	(1,048.2)	(1,001.6)
Property, plant and equipment, net	2,872.0	2,819.5
Long-term assets from risk management activities	9.0	10.9
Investment in unconsolidated affiliate	42.7	36.8
Other long-term assets	98.5	97.3
Total assets	\$3,698.4	\$3,831.0
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$536.1	\$700.0
Deferred income taxes	4.9	-
Liabilities from risk management activities	28.3	41.1
Total current liabilities	569.3	741.1
Long-term debt	1,469.7	1,567.0
Long-term liabilities from risk management activities	13.9	15.8
Deferred income taxes	118.0	120.5
Other long-term liabilities	62.2	55.9
Commitments and contingencies (see Note 14)		
Owners' equity:		
Targa Resources Corp. stockholders' equity:		
Common stock (\$0.001 par value, 300,000,000 shares authorized, 42,440,793 and 42,398,148 shares issued and outstanding as of March 31, 2012 and December 31, 2011)	-	-
Preferred stock (\$0.001 par value, 100,000,000 shares authorized, no shares issued and outstanding as of March 31, 2012 and December 31, 2011)	-	-

Edgar Filing: Targa Resources Corp. - Form 10-Q

Additional paid-in capital	200.8	229.5
Accumulated deficit	(60.5)	(70.1)
Accumulated other comprehensive income (loss)	-	(1.3)
Total Targa Resources Corp. stockholders' equity	140.3	158.1
Noncontrolling interests in subsidiaries	1,325.0	1,172.6
Total owners' equity	1,465.3	1,330.7
Total liabilities and owners' equity	\$3,698.4	\$3,831.0

See notes to consolidated financial statements

Table of Contents

TARGA RESOURCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	(In millions, except per share amounts)	
Revenues	\$1,645.8	\$1,618.6
Costs and expenses:		
Product purchases	1,384.2	1,401.2
Operating expenses	71.6	65.9
Depreciation and amortization expenses	47.4	43.4
General and administrative expenses	34.9	34.6
	1,538.1	1,545.1
Income from operations	107.7	73.5
Other income (expense):		
Interest expense, net	(30.5)	(28.5)
Equity earnings	2.1	1.7
Other expense, net	-	(0.1)
Income before income taxes	79.3	46.6
Income tax expense:		
Current	(8.7)	(5.5)
Deferred	(1.4)	(0.3)
	(10.1)	(5.8)
Net income	69.2	40.8
Less: Net income attributable to noncontrolling interests	59.6	34.0
Net income available to common shareholders	\$9.6	\$6.8
Net income available per common share - basic	\$0.23	\$0.17
Net income available per common share - diluted	\$0.23	\$0.16
Weighted average shares outstanding - basic	41.0	40.9
Weighted average shares outstanding - diluted	41.8	41.3

See notes to consolidated financial statements

Table of Contents

TARGA RESOURCES CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,	
	2012	2011
	(Unaudited) (In millions)	
Net income attributable to Targa Resources Corp.	\$9.6	\$6.8
Other comprehensive income (loss) attributable to Targa Resources Corp.		
Commodity hedging contracts:		
Change in fair value	2.4	(9.2)
Settlements reclassified to revenues	(0.6)	0.1
Interest rate swaps:		
Change in fair value	-	0.3
Settlements reclassified to interest expense, net	0.4	0.4
Related income taxes	(0.9)	3.4
Other comprehensive income (loss) attributable to Targa Resources Corp.	1.3	(5.0)
Comprehensive income (loss) attributable to Targa Resources Corp.	10.9	1.8
Net income attributable to noncontrolling interests	59.6	34.0
Other comprehensive income (loss) attributable to noncontrolling interests		
Commodity hedging contracts:		
Change in fair value	13.1	(52.0)
Settlements reclassified to revenues	(1.9)	3.9
Interest rate swaps:		
Change in fair value	-	(0.1)
Settlements reclassified to interest expense, net	1.9	2.1
Other comprehensive income (loss) attributable to noncontrolling interests	13.1	(46.1)
Comprehensive income attributable to noncontrolling interests	72.7	(12.1)
Total comprehensive income (loss)	\$83.6	\$(10.3)

See notes to consolidated financial statements

Table of Contents

TARGA RESOURCES CORP.
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

	Common Stock		Additional	Accumulated	Accumulated	Non	Total
	Shares	Amount	Paid in Capital	Deficit	Other Comprehensive Income (Loss)	Controlling Interests	
(Unaudited)							
(In millions, except shares in thousands)							
Balance, December 31, 2011	42,398	\$ -	\$ 229.5	\$ (70.1)	\$ (1.3)	\$ 1,172.6	\$ 1,330.7
Compensation on equity grants	43	-	3.9	-	-	0.6	4.5
Sale of Partnership limited partner interests	-	-	-	-	-	115.2	115.2
Impact of Partnership equity transactions	-	-	(18.3)	-	-	18.3	-
Dividends	-	-	(14.3)	-	-	(0.1)	(14.4)
Distributions	-	-	-	-	-	(54.3)	(54.3)
Other comprehensive income	-	-	-	-	1.3	13.1	14.4
Net income	-	-	-	9.6	-	59.6	69.2
Balance, March 31, 2012	42,441	\$ -	\$ 200.8	\$ (60.5)	\$ -	\$ 1,325.0	\$ 1,465.3
Balance, December 31, 2010	42,292	\$ -	\$ 244.5	\$ (100.8)	\$ 0.6	\$ 891.8	\$ 1,036.1
Compensation on equity grants	58	-	3.3	-	-	-	3.3
Sale of Partnership limited partner interests	-	-	-	-	-	298.1	298.1
Impact of Partnership equity transactions	-	-	22.2	-	-	(22.2)	-
Dividends	-	-	(2.6)	-	-	-	(2.6)
Distributions	-	-	-	-	-	(43.0)	(43.0)
Other comprehensive loss	-	-	-	-	(5.0)	(46.1)	(51.1)
Net income	-	-	-	6.8	-	34.0	40.8
Balance, March 31, 2011	42,350	\$ -	\$ 267.4	\$ (94.0)	\$ (4.4)	\$ 1,112.6	\$ 1,281.6

See notes to consolidated financial statements

Table of Contents

TARGA RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income	\$ 69.2	\$ 40.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization in interest expense	4.8	1.9
Compensation on equity grants	4.5	3.3
Depreciation and amortization expense	47.4	43.4
Accretion of asset retirement obligations	1.0	0.9
Deferred income tax expense	1.4	0.3
Equity earnings, net of distributions	-	(1.7)
Risk management activities	0.9	(0.3)
Changes in operating assets and liabilities:		
Receivables and other assets	119.6	32.4
Inventory	44.3	47.3
Accounts payable and other liabilities	(154.3)	(98.2)
Net cash provided by operating activities	138.8	70.1
Cash flows from investing activities		
Outlays for property, plant and equipment	(103.0)	(57.0)
Business acquisitions	-	(29.0)
Investment in unconsolidated affiliate	(6.2)	(4.4)
Unconsolidated affiliate distributions in excess of accumulated earnings	0.3	-
Other, net	0.8	-
Net cash used in investing activities	(108.1)	(90.4)
Cash flows from financing activities		
Partnership loan facilities:		
Borrowings	145.0	268.0
Repayments	(643.0)	(832.0)
Proceeds from issuance of senior notes	400.0	325.0
Cash paid on note exchange	-	(27.7)
Costs incurred in connection with financing arrangements	(4.4)	(6.2)
Distributions to owners	(54.3)	(43.0)
Proceeds from sale of common units of the Partnership	115.2	298.1
Dividends to common and common equivalent shareholders	(13.8)	(2.6)
Net cash used in financing activities	(55.3)	(20.4)
Net change in cash and cash equivalents	(24.6)	(40.7)
Cash and cash equivalents, beginning of period	145.8	188.4
Cash and cash equivalents, end of period	\$ 121.2	\$ 147.7

See notes to consolidated financial statements

8

Table of Contents

TARGA RESOURCES CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Except as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in millions of dollars.

Note 1 — Organization

Targa Resources Corp. (“TRC”) is a Delaware corporation formed in October 2005. Our common stock is listed on the NYSE under the symbol “TRGP.” In this Quarterly Report, unless the context requires otherwise, references to “we,” “us,” “our,” “the Company” or “Targa” are intended to mean our consolidated business and operations, including our wholly-owned subsidiary TRI Resources Inc. (“TRI”).

Note 2 — Basis of Presentation

We have prepared these unaudited consolidated financial statements in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. While we derived the year-end balance sheet data from audited financial statements, this interim report does not include all disclosures required by GAAP for annual periods. These unaudited consolidated financial statements and other information included in this Quarterly Report should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report.

The unaudited consolidated financial statements for the three months ended March 31, 2012 and 2011 include all adjustments which we believe are necessary for a fair presentation of the results for interim periods. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in prior periods have been reclassified to conform to the current year presentation.

Our financial results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012.

One of our indirect subsidiaries is the sole general partner of the Partnership. Because we control the general partner of the Partnership, under GAAP, we must reflect our ownership interests in the Partnership on a consolidated basis. Accordingly, the Partnership’s financial results are included in our consolidated financial statements even though the distribution or transfer of Partnership assets is limited by the terms of the Partnership’s partnership agreement, as well as restrictive covenants in the Partnership’s lending agreements. The limited partner interests in the Partnership not owned by controlling affiliates of us are reflected in our results of operations as net income attributable to noncontrolling interests and in our balance sheet equity section as noncontrolling interests in subsidiaries. Throughout these footnotes, we make a distinction where relevant between financial results of the Partnership versus those of a standalone parent and its non-partnership subsidiaries.

As of March 31, 2012, our interests in the Partnership consist of the following:

- a 2% general partner interest, which we hold through our 100% ownership interest in the general partner of the Partnership;
- all Incentive Distribution Rights (“IDRs”); and

- 12,945,659 common units of the Partnership, representing a 14.5% limited partnership interest.

The Partnership is engaged in the business of gathering, compressing, treating, processing and selling natural gas; storing, fractionating, treating, transporting and selling NGLs and NGL products; and storing and terminaling refined petroleum products and crude oil. See Note 15 for an analysis of our and the Partnership's operations by segment.

Table of Contents

Note 3 — Significant Accounting Policies

Accounting Policy Updates/Revisions

The accounting policies that we follow are set forth in Note 3 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant changes to these policies during the three months ended March 31, 2012.

Accounting Standards Update No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, was implemented in this Quarterly Report. We have made additional disclosures in Note 12 – Fair Value Measurements to report the fair value of financial instruments reported at carrying value on our Consolidated Balance Sheets and their classification in the fair value hierarchy. We have also disclosed the significant assumptions informing our valuation methodology for financial instruments classified as Level 3.

Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, was implemented in this Quarterly Report. We have made new disclosures in Note 10 to report the tax effect of each component of other comprehensive income.

Note 4 — Property, Plant and Equipment

	March 31, 2012			December 31, 2011			Estimated Useful Lives (In Years)
	Targa Resources Partners LP	TRC Non-Partnership	Targa Resources Corp. Consolidated	Targa Resources Partners LP	TRC Non-Partnership	Targa Resources Corp. Consolidated	
Natural gas gathering systems	\$ 1,761.9	\$ -	\$ 1,761.9	\$ 1,740.6	\$ -	\$ 1,740.6	5 to 20
Processing and fractionation facilities	1,108.1	6.6	1,114.7	1,062.7	6.6	1,069.3	5 to 25
Terminaling and storage facilities	389.6	-	389.6	380.7	-	380.7	5 to 25
Transportation assets	281.8	-	281.8	281.2	-	281.2	10 to 25
Other property, plant and equipment	57.1	24.0	81.1	54.9	24.0	78.9	3 to 25
Land	72.0	-	72.0	71.2	-	71.2	-
Construction in progress	215.4	3.7	219.1	195.6	3.6	199.2	-
	\$ 3,885.9	\$ 34.3	\$ 3,920.2	\$ 3,786.9	\$ 34.2	\$ 3,821.1	

Note 5 — Accounts Payable and Accrued Liabilities

The components of accounts payable and accrued liabilities consist of the following.

Edgar Filing: Targa Resources Corp. - Form 10-Q

	March 31, 2012	December 31, 2011
Commodities	\$403.9	\$514.0
Other goods and services	58.7	88.2
Interest	26.5	32.4
Compensation and benefits	31.4	46.1
Other	15.6	19.3
	\$536.1	\$700.0

Table of Contents

Note 6 — Debt Obligations

	March 31, 2012	December 31, 2011
Long-term debt:		
Non-Partnership obligations:		
TRC Holdco loan facility, variable rate, due February 2015	\$89.3	\$89.3
TRI Senior secured revolving credit facility, variable rate, due July 2014 (1)	-	-
Obligations of the Partnership: (2)		
Senior secured revolving credit facility, variable rate, due July 2015 (3)	-	498.0
Senior unsecured notes, 8¼% fixed rate, due July 2016	209.1	209.1
Senior unsecured notes, 11¼% fixed rate, due July 2017	72.7	72.7
Unamortized discount	(2.8)	(2.9)
Senior unsecured notes, 7 % fixed rate, due October 2018	250.0	250.0
Senior unsecured notes, 6 % fixed rate, due February 2021	483.6	483.6
Unamortized discount	(32.2)	(32.8)
Senior unsecured notes, 6 % fixed rate, due August 2022	400.0	-
Total long-term debt	\$1,469.7	\$1,567.0
Irrevocable standby letters of credit:		
Letters of credit outstanding under TRI Senior secured credit facility (1)	\$-	\$-
Letters of credit outstanding under the Partnership senior secured revolving credit facility (3)	77.6	92.5
	\$77.6	\$92.5

(1) As of March 31, 2012, the entire amount of TRI's \$75.0 million credit facility was available.

(2) While we consolidate the debt of the Partnership in our financial statements, we do not have the obligation to make interest payments or debt payments with respect to the debt of the Partnership.

(3) As of March 31, 2012, availability under the Partnership's \$1.1 billion senior secured revolving credit facility was \$1,022.4 million.

The following table shows the range of interest rates and weighted average interest rate incurred on our and the Partnership's variable-rate debt obligations during the three months ended March 31, 2012:

	Range of Interest Rates Incurred	Weighted Average Interest Rate Incurred
TRC Holdco Loan Facility	3.2% - 3.3%	3.3%
Partnership Senior Secured Revolving Credit Facility	2.5% - 2.9%	2.8%

As of March 31, 2012, both we and the Partnership were in compliance with the covenants contained in our various debt agreements.

Partnership 6 % Senior Notes

On January 30, 2012, the Partnership privately placed \$400.0 million in aggregate principal amount of 6 % Senior Notes due 2022 (the "6 % Notes"). The 6 % Notes resulted in approximately \$395.6 million of net proceeds, which were used to reduce borrowings under the Partnership's senior secured revolving credit facility (the "Revolver") and for general partnership purposes.

The 6 % Notes are unsecured senior obligations that rank pari passu in right of payment with existing and future senior indebtedness, including indebtedness under the Partnership's credit facility. They are senior in right of payment to any of the Partnership's future subordinated indebtedness and are unconditionally guaranteed by certain of the Partnership's subsidiaries. The 6 Notes are effectively subordinated to all secured indebtedness under the Partnership's credit agreement, which is secured by substantially all of the Partnership's assets, to the extent of the value of the collateral securing that indebtedness.

Interest on the 6 % Notes accrues at the rate of 6 % per annum and is payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2012.

Table of Contents

The Partnership may redeem 35% of the aggregate principal amount of the 6 % Notes at any time prior to February 1, 2015, with the net cash proceeds of one or more equity offerings. The Partnership must pay a redemption price of 106.375% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date provided that:

- 1) at least 65% of the aggregate principal amount of the 6 % Notes (excluding the 6 % Notes held by the Partnership) remains outstanding immediately after the occurrence of such redemption; and
- 2) the redemption occurs within 180 days of the date of the closing of such equity offering.

The Partnership may also redeem all or part of the 6 % Notes on or after February 1, 2017 at the prices set forth below plus accrued and unpaid interest and liquidated damages, if any, on the notes redeemed, if redeemed during the twelve month period beginning on February. Redemption periods begin on February 1 of each year indicated below:

Year	Redemption Price
2017	103.188%
2018	102.125%
2019	101.063%
2020 and thereafter	100.000%

Note 7 — Partnership Units and Related Matters

Public Offerings of Common Units

On January 23, 2012, the Partnership completed a public offering of 4,000,000 common units at a price of \$38.30 per common unit (\$37.11 per common unit, net of underwriting discounts). Net proceeds to the Partnership from this offering were approximately \$150.0 million. Pursuant to the exercise of the underwriters' overallotment option, the Partnership issued an additional 405,000 common units, providing net proceeds of approximately \$15.0 million. As part of this offering, a wholly-owned subsidiary of ours purchased 1,300,000 common units with an aggregate value of \$49.8 million (based on the offering price of \$38.30). The units our subsidiary purchased were not subject to any underwriter discounts or commissions. In addition, we contributed \$3.4 million for 89,898 general partner units to maintain our 2% general partner interest in the Partnership. The Partnership used the net proceeds from this offering for general partnership purposes, including the repayment of indebtedness.

Distributions

Distributions by the Partnership for the three months ended March 31, 2012 and December 31, 2011 were as follows:

Three Months Ended	Date Paid or to be Paid	Distributions Limited Partners			General Partner Incentive 2%	Total	Distributions to Targa Resources Corp.	Distributions per limited partner unit
		Common						
March 31, 2012	May 15, 2012	\$ 55.5	\$ 12.7	\$ 1.4	\$ 69.6	\$ 22.2	\$ 0.6225	
December 31, 2011	February 14, 2012	53.7	11.0	1.3	66.0	20.1	0.6025	

(In millions, except per unit amounts)

Note 8 — Common Stock and Related Matters

Our dividends for the three months ended March 31, 2012 and December 31, 2011 were as follows:

Three Months Ended	Date Paid or to be Paid	Total Dividend Declared	Amount of Dividend Paid	Accrued Dividends (1)	Dividend Declared per Share of Common Stock
(In millions, except per share amounts)					
March 31, 2012	May 16, 2012	\$ 15.5	\$ 15.0	\$ 0.5	\$ 0.36500
December 31, 2011	February 15, 2012	14.3	13.8	0.5	0.33625

(1) Represents accrued dividends on the restricted shares that are payable upon vesting.

Table of Contents

Note 9 — Earnings per Common Share

The following table sets forth a reconciliation of net income and weighted average shares outstanding used in computing basic and diluted net income per common share:

	Three Months Ended March 31,	
	2012	2011
Net income	\$69.2	\$40.8
Less: Net income attributable to noncontrolling interest	59.6	34.0
Net income attributable to common shareholders	\$9.6	\$6.8
Weighted average shares outstanding - basic	41.0	40.9
Net income available per common share - basic	\$0.23	\$0.17
Weighted average shares outstanding	41.0	40.9
Dilutive effect of unvested stock awards	0.8	0.4
Weighted average shares outstanding - diluted	41.8	41.3
Net income available per common share - diluted	\$0.23	\$0.16

Note 10 — Allocation of Taxes in Other Comprehensive Income

The following table provides the allocation of taxes to each component of other comprehensive income (loss):

	Three Months Ended March 31, 2012		
	Tax		
	Before-Tax Amount	(Expense) or Benefit	Net-of-Tax Amount
Commodity hedging contracts:			
Change in fair value	\$2.4	\$(0.9)	\$1.5
Settlements reclassified to revenues	(0.6)	0.2	(0.4)
Interest rate hedges:			
Change in fair value	-	-	-
Settlements reclassified to interest expense, net	0.4	(0.2)	0.2
Other comprehensive income (loss) attributable to Targa Resources Corp.	\$2.2	\$(0.9)	\$1.3
	Three Months Ended March 31, 2011		
	Tax		
	Before-Tax Amount	(Expense) or Benefit	Net-of-Tax Amount
Commodity hedging contracts:			
Change in fair value	\$(9.2)	\$3.7	\$(5.5)
Settlements reclassified to revenues	0.1	-	0.1
Interest rate hedges:			
Change in fair value	0.3	-	0.3
Settlements reclassified to interest expense, net	0.4	(0.3)	0.1
Other comprehensive income (loss) attributable to Targa Resources Corp.	\$(8.4)	\$3.4	\$(5.0)

Note 11 — Derivative Instruments and Hedging Activities

Partnership Commodity Hedges

The primary purpose of the Partnership's commodity risk management activities is to hedge the exposure to commodity price risk and reduce fluctuations in the Partnership's operating cash flow despite fluctuations in commodity prices. In an effort to reduce the variability of cash flows, the Partnership has hedged the commodity price associated with a portion of its expected natural gas and NGL equity volumes through 2013 and condensate equity volumes through 2014 by entering into derivative instruments including swaps and purchased puts (floors).

Table of Contents

The hedges generally match the NGL product composition and the NGL and natural gas delivery points to those of the Partnership's physical equity volumes. The NGL hedges may be transacted as specific NGL hedges or as baskets of ethane, propane, normal butane, isobutane and natural gasoline based upon the Partnership's expected equity NGL composition. We believe this approach avoids uncorrelated risks resulting from employing hedges on crude oil or other petroleum products as "proxy" hedges of NGL prices. The Partnership's natural gas and NGL hedges are settled using published index prices for delivery at various locations which closely approximate the Partnership's actual natural gas and NGL delivery points.

The Partnership hedges a portion of its condensate sales using crude oil hedges that are based on the NYMEX futures contracts for West Texas Intermediate light, sweet crude, which approximates the prices received for condensate. This necessarily exposes the Partnership to a market differential risk if the NYMEX futures do not move in exact parity with the sales price of its underlying West Texas condensate equity volumes.

At March 31, 2012, the notional volumes of the Partnership's commodity hedges for equity volumes were:

Commodity	Instrument	Unit	2012	2013	2014
Natural Gas	Swaps	MMBtu/d	31,790	17,089	-
NGL	Swaps	Bbl/d	9,361	4,150	-
NGL	Puts (propane)	Bbl/d	294	-	-
NGL	Calls (ethane) (1)	Bbl/d	2,000	-	-
Condensate	Swaps	Bbl/d	1,660	1,795	700

(1) Utilized in connection with 2,000 Bbl/d of 2012 ethane swaps providing a floor on ethane with upside.

The Partnership also enters into derivative instruments to help manage other short-term commodity-related business risks. The Partnership has not designated these derivatives as hedges and records changes in fair value and cash settlements to revenues.

The following schedules reflect the fair values of the Partnership's derivative instruments:

	Balance Sheet Location	Derivative Assets		Derivative Liabilities		
		Fair Value as of		Fair Value as of		
		March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	
Derivatives designated as hedging instruments						
Commodity contracts	Current assets	\$ 40.0	\$ 40.3	Current liabilities	\$ 27.8	\$ 40.6
	Long-term assets	9.0	10.9	Long-term liabilities	13.9	15.8
Total derivatives designated as hedging instruments		\$ 49.0	\$ 51.2		\$ 41.7	\$ 56.4
Derivatives not designated as hedging instruments						
Commodity contracts	Current assets	\$ 0.5	\$ 0.7	Current liabilities	\$ 0.5	\$ 0.5
		\$ 0.5	\$ 0.7		\$ 0.5	\$ 0.5

Total derivatives not designated as hedging instruments				
Total derivatives	\$	49.5	\$	51.9
	\$		\$	42.2
	\$		\$	56.9

The fair value of the Partnership's derivative instruments, depending on the type of instrument, was determined by the use of present value methods or standard option valuation models with assumptions about commodity prices based on those observed in underlying markets.

The estimated fair value of the Partnership's derivative instruments was a net asset of \$7.3 million as of March 31, 2012, net of an adjustment for credit risk. The credit risk adjustment is based on the default probabilities by year as indicated by market quotes for the counterparties' credit default swap rates. These default probabilities have been applied to the unadjusted fair values of the derivative instruments to arrive at the credit risk adjustment, which aggregates to \$0.1 million as of March 31, 2012.

The Partnership's payment obligations in connection with substantially all of these hedging transactions and any additional credit exposure due to a rise in natural gas, NGL and crude oil prices relative to the fixed prices set forth in the hedges are secured by a first priority lien in the collateral securing its senior secured indebtedness that ranks equal in right of payment with liens granted in favor of its senior secured lenders.

Table of Contents

The following tables reflect amounts recorded in other comprehensive income (“OCI”) and amounts reclassified from OCI to revenue and expense for the three months ended March 31, 2012 and 2011:

	Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
		2012	2011
		Interest rate contracts	\$-
Commodity contracts	15.5	(61.2)	
		\$15.5	\$(61.0)

	Location of Gain (Loss)	Gain (Loss) Reclassified from OCI into Income (Effective Portion)	
		2012	2011
		Interest expense, net	\$(2.3)
Revenues	2.5	(4.0)	
		\$0.2	\$(6.5)

Hedge ineffectiveness was immaterial for all periods presented.

Our consolidated earnings are also affected by the use of the mark-to-market method of accounting for derivative instruments that do not qualify for hedge accounting or that have not been designated as hedges. The changes in fair value of these instruments are recorded on the balance sheet and through earnings (i.e., using the “mark-to-market” method) rather than being deferred until the anticipated transaction settles. The use of mark-to-market accounting for financial instruments can cause non-cash earnings volatility due to changes in the underlying commodity price indices. During the three months ended March 31, 2012 and 2011, we recorded the following mark-to-market gains:

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivatives	Gain Recognized in Income on Derivatives	
		2012	2011
Commodity contracts	Revenue	\$ 0.1	\$ 1.0

The following table shows the deferred gains (losses) included in accumulated OCI that will be reclassified into earnings through the end of 2014:

	March 31, 2012	December 31, 2011
Commodity hedges, before tax	\$2.2	\$0.4
Commodity hedges, after tax	1.3	0.2
Interest rate swaps, before tax	(2.3)	(2.5)
Interest rate swaps, after tax	(1.4)	(1.4)

As of March 31, 2012, deferred net gains of \$5.2 million on commodity hedges and deferred net losses of \$7.4 million on terminated interest rate swaps recorded in OCI are expected to be reclassified to revenue and interest expense

during the next twelve months.

See Note 3 and Note 12 for additional disclosures related to derivative instruments and hedging activities.

Table of Contents

Note 12 — Fair Value Measurements

We categorize the inputs to the fair value of financial assets and liabilities using a three-tier fair value hierarchy that prioritizes the significant inputs used in measuring fair value:

- Level 1 – observable inputs such as quoted prices in active markets;
- Level 2 – inputs other than quoted prices in active markets that are either directly or indirectly observable to the extent that the markets are liquid for the relevant settlement periods; and
- Level 3 – unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Partnership's derivative instruments consist of financially settled commodity swap and option contracts and fixed price commodity contracts with certain counterparties. The Partnership determines the value of its derivative contracts using a discounted cash flow model for swaps and a standard option pricing model for options, based on inputs that are readily available in public markets. The Partnership has consistently applied these valuation techniques in all periods presented and we believe the Partnership has obtained the most accurate information available for the types of derivative contracts the Partnership holds.

The fair values of the Partnership's derivative instruments, which aggregate to a net asset position of \$7.3 million as of March 31, 2012, are sensitive to changes in forward pricing on natural gas, NGLs and crude oil. This asset position reflects the present value, adjusted for counterparty credit risk, of the amount the Partnership expects to receive in the future on its derivative contracts. If forward pricing on natural gas, NGLs and crude oil were to increase by 10%, the result would be a fair value reflecting a net liability of \$34.1 million, ignoring an adjustment for counterparty credit risk. If forward pricing on natural gas, NGLs and crude oil were to decrease by 10%, the result would be a fair value reflecting a net asset of \$48.1 million, ignoring an adjustment for counterparty credit risk.

The following table reflects the classification within the fair value hierarchy of derivative contracts that are recorded on our Consolidated Balance Sheets at fair value:

	March 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets from commodity derivative contracts	\$49.5	\$-	\$49.5	\$-
Liabilities from commodity derivative contracts	\$42.2	\$-	\$42.2	\$-

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets from commodity derivative contracts	\$51.9	\$-	\$51.9	\$-
Liabilities from commodity derivative contracts	\$56.9	\$-	\$56.9	\$-

The following table reflects the classification within the fair value hierarchy of financial instruments that are not recorded on our Consolidated Balance Sheets at fair value:

	March 31, 2012			
	Total	Level 1	Level 2	Level 3
Long term debt	\$1,582.1	\$-	\$1,494.6	\$87.5

December 31, 2011				
-------------------	--	--	--	--

Edgar Filing: Targa Resources Corp. - Form 10-Q

	Total	Level 1	Level 2	Level 3
Long term debt	\$1,144.8	\$-	\$1,057.3	\$87.5

16

Table of Contents

Long term debt classified as Level 3 in the fair value hierarchy represents our Holdco loan facility. The fair value takes into consideration the average price we paid to re-purchase the Holdco loan facility from several creditors in November 2010, and consideration of our improved credit profile since those transactions took place.

There have been no transfers of assets or liabilities between the three levels of the fair value hierarchy during the three months ended March 31, 2012.

Note 13 — Fair Value of Financial Instruments

The estimated fair values of assets and liabilities classified as financial instruments have been determined using available market information and the valuation methodologies described below. Considerable judgment is required in interpreting market data to develop the estimates of fair value. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying values of items comprising current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. Derivative instruments included in our financial statements are stated at fair value.

The carrying value of the Partnership's Revolver approximates fair value as its interest rate is based on prevailing market rates. The fair value of the Partnership's senior unsecured notes is based on quoted market prices based on trades of such debt as of the dates indicated in the following table:

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Holdco loan facility	\$89.3	\$87.5	\$89.3	\$87.5
Senior unsecured notes of the Partnership, 8¼% fixed rate	209.1	220.7	209.1	220.5
Senior unsecured notes of the Partnership, 11¼% fixed rate	69.9	83.0	69.8	82.1
Senior unsecured notes of the Partnership, 7 % fixed rate	250.0	271.6	250.0	264.5
Senior unsecured notes of the Partnership, 6 % fixed rate	451.4	510.5	450.8	490.2
Senior unsecured notes of the Partnership, 6 % fixed rate	400.0	408.8	N/A	N/A

Note 14 — Commitments and Contingencies

Environmental

For environmental matters, we record liabilities when remedial efforts are probable and the costs can be reasonably estimated. Environmental reserves do not reflect management's assessment of any insurance coverage that may be applicable to the matters at issue. Management has assessed each of the matters based on current information and made a judgment concerning its potential outcome, considering the nature of the claim, the amount and nature of damages sought and the probability of success.

The Partnership's environmental liabilities were not significant as of March 31, 2012.

We have reimbursed the Partnership for maintenance capital expenditures of \$16.2 million as of March 31, 2012, which are required to be made in connection with a settlement agreement with the New Mexico Environment Department relating to air emissions at three gas processing plants operated by the Versado Gas Processors, LLC joint venture, with \$0.6 million reimbursed during the first quarter of 2012. These capital projects were substantially complete as of March 31, 2012.

Table of Contents

Legal Proceedings

We are a party to various legal proceedings and/or regulatory proceedings and certain claims, suits and complaints arising in the ordinary course of business that have been filed or are pending against us. We believe all such matters are without merit or involve amounts which, if resolved unfavorably, would not have a material effect on our financial position, results of operations, or cash flows.

Note 15 — Segment Information

The Partnership reports its operations in two divisions: (i) Natural Gas Gathering and Processing, consisting of two reportable segments – (a) Field Gathering and Processing and (b) Coastal Gathering and Processing; and (ii) Logistics and Marketing consisting of two reportable segments – (a) Logistics Assets and (b) Marketing and Distribution. The financial results of the Partnership’s hedging activities are reported in Other.

The Partnership’s Natural Gas Gathering and Processing division includes assets used in the gathering of natural gas produced from oil and gas wells and processing this raw natural gas into merchantable natural gas by extracting NGLs and removing impurities. The Field Gathering and Processing segment’s assets are located in North Texas and the Permian Basin of West Texas and New Mexico. The Coastal Gathering and Processing segment’s assets are located in the onshore and near offshore regions of the Louisiana Gulf Coast and the Gulf of Mexico.

The Partnership’s Logistics and Marketing division is also referred to as the Downstream Business. The Downstream Business includes all the activities necessary to convert mixed NGLs into NGL products and provides certain value added services such as storing, terminaling, transporting, distributing and marketing of NGLs, refined petroleum products and crude oil. It also includes certain natural gas supply and marketing activities in support of the Partnership’s other operations.

The Partnership’s Logistics Assets segment is involved in transporting, storing and fractionating mixed NGLs; storing, terminaling and transporting finished NGLs; and storing and terminaling refined petroleum products and crude oil. These assets are generally connected to, and supplied in part by, the Partnership’s Natural Gas Gathering and Processing segments and are predominantly located in Mont Belvieu, Texas and Southwestern Louisiana. This segment includes the activities associated with the Partnership’s 2011 acquisitions of refined petroleum products and crude oil storage and terminaling facilities.

The Partnership’s Marketing and Distribution segment covers activities required to distribute and market raw and finished NGLs and all natural gas marketing activities. It includes: (1) marketing the Partnership’s NGL production and purchasing NGL products in selected United States markets; (2) providing liquefied petroleum gas balancing services to refinery customers; (3) transporting, storing and selling propane and providing related propane logistics services to multi-state retailers, independent retailers and other end users; and (4) marketing natural gas available to the Partnership from its Natural Gas Gathering and Processing division and the purchase and resale and other value added activities related to third-party natural gas in selected United States markets.

Other contains the results of the Partnership’s commodity hedging activities. Eliminations of inter-segment transactions are reflected in the corporate and eliminations column.

Segment information is shown in the following tables. We have segregated the following segment information between Partnership and non-Partnership activities. Partnership activities have been presented on a common control accounting basis which reflects the dropdown transactions between us and the Partnership as if they occurred in prior periods similar to a pooling of interests. The non-Partnership results include activities related to certain assets and liabilities contractually excluded from the dropdown transactions and certain historical hedge activities that could not

be reflected under GAAP in the Partnership common control results.

Edgar Filing: Targa Resources Corp. - Form 10-Q

Table of Contents

	Three Months Ending March 31, 2012							
	Partnership							
	Field Gathering	Coastal Gathering	Logistics Assets	Marketing and Distribution	Other	Corporate and Eliminations	TRC Non-Partnership	Consolidated
Revenues								
Sales of commodities	\$45.4	\$ 59.8	\$45.7	\$ 1,417.2	\$1.4	\$ -	\$ 0.3	\$ 1,569.8
Fees from midstream services	8.0	2.9	36.2	18.7	-	0.1	0.1	66.0
Other	2.9	0.8	2.5	4.0	-	(0.1)	(0.1)	10.0
	56.3	63.5	84.4	1,439.9	1.4	-	0.3	1,645.8
Intersegment revenues								
Sales of commodities	317.4	220.0	-	132.0	-	(669.4)	-	-
Fees from midstream services	0.3	-	23.8	2.5	-	(26.6)	-	-
Other	-	0.1	0.2	6.8	-	(7.1)	-	-
	317.7	220.1	24.0	141.3	-	(703.1)	-	-
Revenues	\$374.0	\$ 283.6	\$108.4	\$ 1,581.2	\$1.4	\$ (703.1)	\$ 0.3	\$ 1,645.8
Operating margin	\$73.0	\$ 46.3	\$43.0	\$ 26.1	\$1.4	\$ -	\$ 0.2	\$ 190.0
Other financial information:								
Total assets	\$1,661.1	\$ 422.5	\$823.0	\$ 507.9	\$49.5	\$ 123.0	\$ 111.3	\$ 3,698.4
Capital expenditures	\$26.2	\$ 2.0	\$60.1	\$ 9.1	\$-	\$ 0.6	\$ 0.3	\$ 98.3

	Three Months Ended March 31, 2011							
	Partnership							
	Field Gathering	Coastal Gathering	Logistics Assets	Marketing and Distribution	Other	Corporate and Eliminations	TRC Non-Partnership	Consolidated
Revenues								
Sales of commodities	\$45.7	\$ 79.2	\$-	\$ 1,446.3	\$(4.4)	\$ -	\$ 0.5	\$ 1,567.3
Fees from midstream services	5.9	4.5	22.9	9.4	-	-	0.1	42.8
Other	0.4	0.3	0.3	4.6	-	-	2.9	8.5
	52.0	84.0	23.2	1,460.3	(4.4)	-	3.5	1,618.6
Intersegment revenues								
Sales of commodities	299.4	217.0	0.1	110.3	-	(626.8)	-	-
	0.3	0.4	19.0	2.0	-	(21.7)	-	-

Edgar Filing: Targa Resources Corp. - Form 10-Q

Fees from midstream services								
Other	-	-	-	5.6	-	(5.6)	-	-
	299.7	217.4	19.1	117.9	-	(654.1)	-	-
Revenues	\$351.7	\$ 301.4	\$42.3	\$ 1,578.2	\$(4.4)	\$(654.1)	\$ 3.5	\$ 1,618.6
Operating margin	\$61.1	\$ 36.3	\$22.3	\$ 32.7	\$(4.4)	\$ -	\$ 3.5	\$ 151.5
Other financial information:								
Total assets	\$1,641.8	\$ 431.3	\$506.6	\$ 458.7	\$34.5	\$ 67.8	\$ 181.7	\$ 3,322.4
Capital expenditures	\$31.8	\$ 1.4	\$45.2	\$ 0.1	\$-	\$ -	\$ 0.6	\$ 79.1

Table of Contents

The following table shows our consolidated revenues by product and service for the periods presented:

	Three Months Ended March 31,	
	2012	2011
Sales of commodities		
Natural gas sales		