

Targa Resources Corp.
Form 10-Q
August 06, 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 June 30, 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

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(§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 August 1, 2012, there were 42,440,333 shares of the registrant’s common stock, \$0.001 par value, outstanding.

PART I—FINANCIAL INFORMATION

<u>Item 1. Financial Statements.</u>	<u>4</u>
<u>Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>	<u>4</u>
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income for the three months ended June 30, 2012 and 2011</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income for the six months ended June 30, 2012 and 2011</u>	<u>7</u>
<u>Consolidated Statements of Changes in Owners' Equity for the six months ended June 30, 2012 and 2011</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>24</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>47</u>
<u>Item 4. Controls and Procedures.</u>	<u>51</u>

PART II—OTHER INFORMATION

<u>Item 1. Legal Proceedings.</u>	<u>52</u>
<u>Item 1A. Risk Factors.</u>	<u>52</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>52</u>
<u>Item 3. Defaults Upon Senior Securities.</u>	<u>52</u>
<u>Item 4. Mine Safety Disclosures.</u>	<u>52</u>
<u>Item 5. Other Information.</u>	<u>52</u>
<u>Item 6. Exhibits.</u>	<u>53</u>

SIGNATURES

Table of Contents

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Targa Resources Corp.'s (together with its subsidiaries, other than Targa Resources Partners LP (the "Partnership"), 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," "forecast" and 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:

- The Partnership's 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;

- 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”).

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.

Table of Contents

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

	June 30, 2012	December 31, 2011
	(Unaudited)	
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$117.5	\$145.8
Trade receivables, net of allowances of \$2.1 million and \$2.4 million	368.1	575.7
Inventory	89.7	92.2
Deferred income taxes	-	0.1
Assets from risk management activities	56.3	41.0
Other current assets	17.9	11.7
Total current assets	649.5	866.5
Property, plant and equipment	4,060.9	3,821.1
Accumulated depreciation	(1,096.4)	(1,001.6)
Property, plant and equipment, net	2,964.5	2,819.5
Long-term assets from risk management activities	21.3	10.9
Investment in unconsolidated affiliate	50.1	36.8
Other long-term assets	95.1	97.3
Total assets	\$3,780.5	\$3,831.0
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$463.6	\$700.0
Deferred income taxes	21.4	-
Liabilities from risk management activities	2.8	41.1
Total current liabilities	487.8	741.1
Long-term debt	1,610.3	1,567.0
Long-term liabilities from risk management activities	4.1	15.8
Deferred income taxes	107.3	120.5
Other long-term liabilities	62.7	55.9
Commitments and contingencies (see Note 13)		
Owners' equity:		
Targa Resources Corp. stockholders' equity:		
Common stock (\$0.001 par value, 300,000,000 shares authorized, 42,440,333 and 42,398,148 shares issued and outstanding as of June 30, 2012 and December 31, 2011)	-	-
Preferred stock (\$0.001 par value, 100,000,000 shares authorized, no shares issued and outstanding as of June 30, 2012 and December 31, 2011)	-	-
Additional paid-in capital	186.8	229.5

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Accumulated deficit	(51.9)	(70.1)
Accumulated other comprehensive income (loss)	6.0	(1.3)
Total Targa Resources Corp. stockholders' equity	140.9	158.1
Noncontrolling interests in subsidiaries	1,367.4	1,172.6
Total owners' equity	1,508.3	1,330.7
Total liabilities and owners' equity	\$3,780.5	\$3,831.0

See notes to consolidated financial statements.

Table of Contents

TARGA RESOURCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues	\$1,319.1	\$1,728.3	\$2,964.9	\$3,347.0
Costs and expenses:				
Product purchases	1,074.6	1,477.8	2,458.8	2,879.0
Operating expenses	77.3	71.6	148.9	137.6
Depreciation and amortization expenses	48.3	45.3	95.7	88.7
General and administrative expenses	35.7	35.1	70.8	69.7
Other operating	-	-	(0.1)	-
Income from operations	83.2	98.5	190.8	172.0
Other income (expense):				
Interest expense, net	(30.5)	(28.0)	(61.0)	(56.5)
Equity earnings (loss)	(0.2)	1.3	1.9	3.0
Loss on mark-to-market derivative instruments	-	(3.2)	-	(3.2)
Other	(0.4)	-	(0.3)	(0.1)
Income before income taxes	52.1	68.6	131.4	115.2
Income tax expense:				
Current	(7.4)	(4.6)	(16.1)	(10.1)
Deferred	(1.2)	(0.7)	(2.7)	(1.0)
	(8.6)	(5.3)	(18.8)	(11.1)
Net income	43.5	63.3	112.6	104.1
Less: Net income attributable to noncontrolling interests	34.9	52.8	94.4	86.8
Net income available to common shareholders	\$8.6	\$10.5	\$18.2	\$17.3
Net income available per common share - basic	\$0.21	\$0.26	\$0.44	\$0.42
Net income available per common share - diluted	\$0.21	\$0.25	\$0.44	\$0.42
Weighted average shares outstanding - basic	41.0	41.0	41.0	41.0
Weighted average shares outstanding - diluted	41.9	41.4	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 June 30,					
	Pre-Tax	2012 Related Income Tax	After Tax (Unaudited) (In millions)	Pre-Tax	2011 Related Income Tax	After Tax
Net income attributable to Targa Resources Corp.			\$ 8.6			\$ 10.5
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ 12.7	\$ (5.2)	7.5	\$ 0.3	\$ (0.1)	0.2
Settlements reclassified to revenues	(2.9)	1.2	(1.7)	-	-	-
Interest rate swaps:						
Change in fair value	-	-	-	(0.4)	0.2	(0.2)
Settlements reclassified to interest expense, net	0.3	(0.1)	0.2	0.4	(0.2)	0.2
Other comprehensive income attributable to Targa Resources Corp.	\$ 10.1	\$ (4.1)	6.0	\$ 0.3	\$ (0.1)	0.2
Comprehensive income attributable to Targa Resources Corp.			\$ 14.6			\$ 10.7
Net income attributable to noncontrolling interests			\$ 34.9			\$ 52.8
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	\$ 65.0	\$ (0.4)	64.6	\$ 4.1	\$ -	4.1
Settlements reclassified to revenues	(10.9)	0.1	(10.8)	9.7	-	9.7
Interest rate swaps:						
Change in fair value	-	-	-	(1.8)	-	(1.8)
Settlements reclassified to interest expense, net	1.6	-	1.6	1.8	-	1.8
Other comprehensive income attributable to	\$ 55.7	\$ (0.3)	55.4	\$ 13.8	\$ -	13.8

noncontrolling interests		
Comprehensive income		
attributable to		
noncontrolling interests	90.3	66.6
Total comprehensive		
income	\$ 104.9	\$ 77.3

See notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30,					
	Pre-Tax	2012 Related Income Tax	After Tax (Unaudited) (In millions)	Pre-Tax	2011 Related Income Tax	After Tax
Net income attributable to Targa Resources Corp.			\$ 18.2			\$ 17.3
Other comprehensive income (loss) attributable to Targa Resources Corp.						
Commodity hedging contracts:						
Change in fair value	\$ 15.3	\$ (6.1)	9.2	\$ (9.0)	\$ 3.6	(5.4)
Settlements reclassified to revenues	(3.5)	1.4	(2.1)	0.1	-	0.1
Interest rate swaps:						
Change in fair value	-	-	-	(0.1)	-	(0.1)
Settlements reclassified to interest expense, net	0.5	(0.3)	0.2	0.8	(0.3)	0.5
Other comprehensive income (loss) attributable to Targa Resources Corp.	\$ 12.3	\$ (5.0)	7.3	\$ (8.2)	\$ 3.3	(4.9)
Comprehensive income attributable to Targa Resources Corp.			\$ 25.5			\$ 12.4
Net income attributable to noncontrolling interests			\$ 94.4			\$ 86.8
Other comprehensive income (loss) attributable to noncontrolling interests						
Commodity hedging contracts:						
Change in fair value	\$ 77.7	\$ (0.5)	77.2	\$ (47.9)	\$ -	(47.9)
Settlements reclassified to revenues	(12.2)	0.1	(12.1)	13.6	-	13.6
Interest rate swaps:						
Change in fair value	-	-	-	(1.8)	-	(1.8)
Settlements reclassified to interest expense, net	3.6	-	3.6	3.8	-	3.8
Other comprehensive income (loss) attributable	\$ 69.1	\$ (0.4)	68.7	\$ (32.3)	\$ -	(32.3)

to noncontrolling
interests

Comprehensive income attributable to noncontrolling interests	163.1	54.5
Total comprehensive income	\$ 188.6	\$ 66.9

See notes to consolidated financial statements.

7

Table of Contents

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

	Common Stock		Additional Paid in Capital	Accumulated Deficit (Unaudited)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Shares	Amount					
(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	42	-	7.1	-	-	1.7	8.8
Sale of Partnership limited partner interests	-	-	-	-	-	115.2	115.2
Impact of Partnership equity transactions	-	-	(18.8)	-	-	18.8	-
Dividends	-	-	(29.8)	-	-	(0.1)	(29.9)
Distributions to owners	-	-	(1.2)	-	-	(103.9)	(105.1)
Other comprehensive income	-	-	-	-	7.3	68.7	76.0
Net income	-	-	-	18.2	-	94.4	112.6
Balance, June 30, 2012	42,440	\$ -	\$ 186.8	\$ (51.9)	\$ 6.0	\$ 1,367.4	\$ 1,508.3
Balance, December 31, 2010	42,292	\$ -	\$ 244.5	\$ (100.8)	\$ 0.6	\$ 891.8	\$ 1,036.1
Compensation on equity grants	58	-	7.7	-	-	-	7.7
Sale of Partnership limited partner interests	-	-	-	-	-	298.0	298.0
Impact of Partnership equity transactions	-	-	19.1	-	-	(19.1)	-
Dividends	-	-	(14.1)	-	-	-	(14.1)
Distributions to owners	-	-	-	-	-	(90.7)	(90.7)
Other comprehensive loss	-	-	-	-	(4.8)	(32.3)	(37.1)
Net income	-	-	-	17.3	-	86.8	104.1
Balance, June 30, 2011	42,350	\$ -	\$ 257.2	\$ (83.5)	\$ (4.2)	\$ 1,134.5	\$ 1,304.0

See notes to consolidated financial statements.

Table of Contents

TARGA RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2012	2011
	(Unaudited)	
	(In millions)	
Cash flows from operating activities		
Net income	\$112.6	\$104.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization in interest expense	9.5	5.9
Compensation on equity grants	8.8	7.7
Depreciation and amortization expense	95.7	88.7
Accretion of asset retirement obligations	2.0	1.8
Deferred income tax expense	2.7	1.0
Risk management activities	1.1	1.2
Gain on sale of assets	(0.1)	-
Changes in operating assets and liabilities:		
Receivables and other assets	204.0	(33.2)
Inventory	(0.3)	(17.4)
Accounts payable and other liabilities	(232.0)	61.7
Net cash provided by operating activities	204.0	221.5
Cash flows from investing activities		
Outlays for property, plant and equipment	(238.7)	(138.2)
Business acquisition	-	(29.0)
Investment in unconsolidated affiliate	(13.7)	(6.0)
Unconsolidated affiliate distributions in excess of accumulated earnings	0.4	0.6
Other, net	0.9	-
Net cash used in investing activities	(251.1)	(172.6)
Cash flows from financing activities		
Partnership loan facilities:		
Proceeds from borrowings under credit facility	325.0	611.0
Repayments of credit facility	(683.0)	(1,178.3)
Proceeds from issuance of senior notes	400.0	325.0
Cash paid on note exchange	-	(27.7)
Costs incurred in connection with financing arrangements	(4.5)	(6.2)
Distributions to owners	(105.1)	(90.7)
Proceeds from sale of common units of the Partnership	115.2	298.0
Dividends to common and common equivalent shareholders	(28.8)	(13.7)
Net cash provided by (used in) financing activities	18.8	(82.6)
Net change in cash and cash equivalents	(28.3)	(33.7)
Cash and cash equivalents, beginning of period	145.8	188.4
Cash and cash equivalents, end of period	\$117.5	\$154.7

See notes to consolidated financial statements.

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 and six months ended June 30, 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 and six months ended June 30, 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 Targa Resources Partners LP (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 June 30, 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 14 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 six months ended June 30, 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 2012. We have made additional disclosures in Note 11 – 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. Additionally, we have provided information regarding the unobservable inputs used in the fair value measurement of derivative contracts classified as Level 3 within the fair value hierarchy. The impact of Level 3 inputs on our financial statements is immaterial to both net assets and other comprehensive income, and there is no impact whatsoever to net income or cash flows. It is our policy that transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, was implemented during 2012. We have made new disclosures this year, applied retroactively to prior periods, in the Consolidated Statements of Comprehensive Income (Loss) to report the tax effect of each component of other comprehensive income.

Note 4 — Property, Plant and Equipment

	June 30, 2012			December 31, 2011			Estimated Useful Lives (In Years)
	Targa Resources	TRC Non-Partnership	Targa Resources Corp. Consolidated	Targa Resources Partners LP	TRC Non-Partnership	Targa Resources Corp. Consolidated	
	Partners LP	Partnership	Consolidated	Partners LP	Partnership	Consolidated	
Natural gas gathering systems	\$ 1,774.3	\$ -	\$ 1,774.3	\$ 1,740.6	\$ -	\$ 1,740.6	5 to 20
Processing and fractionation facilities	1,130.3	6.6	1,136.9	1,062.7	6.6	1,069.3	5 to 25
Terminaling and storage facilities	400.3	-	400.3	380.7	-	380.7	5 to 25
Transportation assets	291.5	-	291.5	281.2	-	281.2	10 to 25
Other property, plant and equipment	57.8	26.5	84.3	54.9	24.0	78.9	3 to 25
Land	72.0	-	72.0	71.2	-	71.2	-
Construction in progress	300.3	1.3	301.6	195.6	3.6	199.2	-
	\$ 4,026.5	\$ 34.4	\$ 4,060.9	\$ 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:

	June 30, 2012	December 31, 2011
Commodities	\$292.9	\$515.3
Other goods and services	76.0	88.2
Interest	42.9	32.4
Compensation and benefits	37.0	46.1
Other	14.8	18.0
	\$463.6	\$700.0

Table of Contents

Note 6 — Debt Obligations

	June 30, 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)	140.0	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	(2.7)	(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	(31.7)	(32.8)
Senior unsecured notes, 6 % fixed rate, due August 2022	400.0	-
Total long-term debt	\$1,610.3	\$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)	70.2	92.5
	\$70.2	\$92.5

(1) As of June 30, 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 June 30, 2012, availability under the Partnership's \$1.1 billion senior secured revolving credit facility was \$889.8 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 six months ended June 30, 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% - 4.5%	2.8%

As of June 30, 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 \$395.5 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 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

The following table details the distributions paid during or pertaining to the first six months of 2012:

Three Months Ended	Date Paid or to be Paid	Distributions Limited Partners General Partner				Distributions to Targa Resources Corp.	Distributions per limited partner unit
		Common	Incentive	2%	Total		
(In millions, except per unit amounts)							
June 30, 2012	August 14, 2012	\$ 57.3	\$ 14.4	\$ 1.5	\$ 73.2	\$ 24.2	\$ 0.6425
March 31, 2012	May 15, 2012	55.5	12.7	1.4	69.6	22.2	0.6225
		53.7	11.0	1.3	66.0	20.1	0.6025

December 31, 2011	February 14, 2012
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Table of Contents

Note 8 — Common Stock and Related Matters

The following table details the dividends paid during or pertaining to the first six months of 2012:

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)					
June 30, 2012	August 15, 2012	\$ 16.7	\$ 16.1	\$ 0.6	\$ 0.39375
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.

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$43.5	\$63.3	\$112.6	\$104.1
Less: Net income attributable to noncontrolling interests	34.9	52.8	94.4	86.8
Net income attributable to common shareholders	\$8.6	\$10.5	\$18.2	\$17.3
Weighted average shares outstanding - basic	41.0	41.0	41.0	41.0
Net income available per common share - basic	\$0.21	\$0.26	\$0.44	\$0.42
Weighted average shares outstanding	41.0	41.0	41.0	41.0
Dilutive effect of unvested stock awards	0.9	0.4	0.8	0.3
Weighted average shares outstanding - diluted	41.9	41.4	41.8	41.3
Net income available per common share - diluted	\$0.21	\$0.25	\$0.44	\$0.42

Note 10 — 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 (i) natural gas equity volumes in Field Gathering and Processing Operations through 2015 and (ii) NGL and condensate equity volumes predominately in Field Gathering and Processing as well as in the LOU portion of the Coastal Gathering and Processing Operations through 2014 that result from its percent of proceeds processing arrangement by entering into derivative instruments including swaps and purchased puts (floors)

and calls (caps). The Partnership has designated these derivative contracts as cash flow hedges.

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.

Table of Contents

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 June 30, 2012, the notional volumes of the Partnership's commodity hedges for equity volumes were:

Commodity	Instrument	Unit	2012	2013	2014	2015
Natural Gas	Swaps	MMBtu/d	31,790	26,089	18,000	4,500
NGL	Swaps	Bbl/d	9,361	5,650	1,000	-
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		
		June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	
Derivatives designated as hedging instruments						
Commodity contracts	Current assets	\$ 55.4	\$ 40.3	Current liabilities	\$ 2.6	\$ 40.6
	Long-term assets	21.3	10.9	Long-term liabilities	4.1	15.8
Total derivatives designated as hedging instruments		\$ 76.7	\$ 51.2		\$ 6.7	\$ 56.4
Derivatives not designated as hedging instruments						
Commodity contracts	Current assets	\$ 0.9	\$ 0.7	Current liabilities	\$ 0.2	\$ 0.5
Total derivatives not designated as hedging instruments		\$ 0.9	\$ 0.7		\$ 0.2	\$ 0.5
Total derivatives		\$ 77.6	\$ 51.9		\$ 6.9	\$ 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 \$70.7 million as of June 30, 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 \$0.5 million as of June 30, 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 periods indicated:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest rate contracts	\$ -	\$ (2.2)	\$ -	\$ (1.9)
Commodity contracts	77.7	4.4	93.0	(56.9)
	\$ 77.7	\$ 2.2	\$ 93.0	\$ (58.8)

Location of Gain (Loss)	Gain (Loss) Reclassified from OCI into Income (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest expense, net	\$ (1.9)	\$ (2.2)	\$ (4.1)	\$ (4.6)
Revenues	13.8	(9.7)	15.7	(13.7)
	\$ 11.9	\$ (11.9)	\$ 11.6	\$ (18.3)

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. The Partnership recorded the following mark-to-market gains (losses) for the periods indicated:

Derivatives not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
Commodity contracts	Revenue	\$ 0.8	\$ -	\$ 0.9	\$ 1.0
Interest rate swaps	Interest expense	-	(3.2)	-	(3.2)

The following table shows the deferred gains (losses) included in accumulated OCI that will be reclassified into earnings through the end of 2015:

	June 30, 2012	December 31, 2011
Commodity hedges, before tax	\$12.0	\$0.4
Commodity hedges, after tax	7.1	0.2
Interest rate swaps, before tax	(2.0)	(2.5)
Interest rate swaps, after tax	(1.2)	(1.4)

As of June 30, 2012, deferred net gains of \$46.7 million on commodity hedges and deferred net losses of \$7.0 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 11 for additional disclosures related to derivative instruments and hedging activities.

Table of Contents

Note 11 — 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 \$70.7 million as of June 30, 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 asset of \$29.3 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 \$111.5 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:

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets from commodity derivative contracts	\$77.6	\$-	\$77.6	\$-
Liabilities from commodity derivative contracts	\$6.9	\$-	\$6.5	\$0.4

	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	\$-

Table of Contents

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:

	Total	June 30, 2012		
		Level 1	Level 2	Level 3
Long term debt	\$1,562.6	\$-	\$1,475.1	\$87.5

	Total	December 31, 2011		
		Level 1	Level 2	Level 3
Long term debt	\$1,144.8	\$-	\$1,057.3	\$87.5

Additional Information Regarding Level 3 Fair Value Measurements

As of June 30, 2012, certain of the Partnership's natural gas basis swaps were reported at fair value using Level 3 inputs due to such derivatives not having observable market prices for substantially the full term of the derivative asset or liability. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivatives valued using indicative price quotations whose contract tenure extends into unobservable periods.

The fair value of these natural gas basis swaps is determined using a discounted cash flow valuation technique based on a forward commodity basis curve. For these derivatives, the primary input to the valuation model is the forward commodity basis curve which is based on observable or public data sources and extrapolated when observable prices are not available.

The significant unobservable input used in the fair value measurement of the Partnership's Level 3 derivatives is the forward natural gas basis curve beginning in year 2015. Because a significant portion of the derivative's term is in 2015 and beyond, the entire valuation is categorized as Level 3. The change in the fair value of the Partnership's Level 3 derivatives associated with a 10% change in the forward basis curve where prices are not observable is immaterial.

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.

The following table sets forth a reconciliation of the changes in the fair value of the Partnership's financial instruments classified as Level 3 in the fair value hierarchy:

	Commodity Derivative Contracts
Balance, December 31, 2011	\$-
Unrealized losses included in OCI	0.4
Transfers into Level 3	-
Transfers out of Level 3	-
Balance, June 30, 2012	\$0.4

There have been no transfers of assets or liabilities between the three levels of the fair value hierarchy during the six months ended June 30, 2012. The Partnership's Level 3 balance for commodity derivative contracts is attributable to a new hedge we entered into during the second quarter of 2012.

Table of Contents

Note 12 — 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:

	June 30, 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	217.8	209.1	220.5