

ATLAS PIPELINE PARTNERS LP  
Form S-3/A  
August 24, 2006  
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As filed with the Securities and Exchange Commission on August 24, 2006

Registration No. 333-135704

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 1**

**to**

**FORM S-3**

**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**ATLAS PIPELINE PARTNERS, L.P.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**23-3011077**  
(I.R.S. Employer  
Identification No.)

**311 Rouser Road**

**Moon Township, PA 15108**

**(412) 262-2830**

(Address, including zip code, and telephone number, including area code, of

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(registrant's principal executive office)

**Michael L. Staines**

**Atlas Pipeline Partners GP, LLC**

**311 Rouser Road**

**Moon Township, PA 15108**

**(412) 262-2830**

(Address, including zip code, and telephone number, including area code, of

agent for service)

*Please send copies of communications to:*

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**Philadelphia, PA 19103**

**(215) 731-9450**

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or reinvestment plans, please check the following box:

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**



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**The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED AUGUST 24, 2006**

PROSPECTUS

**2,100,000 Common Units**

**ATLAS PIPELINE PARTNERS, L.P.**

**Common Units Issuable Upon Conversion of 6.5% Cumulative Convertible Preferred Units**

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This prospectus relates to the sale of up to 2,100,000 common units representing limited partner interests upon conversion of our 6.5% cumulative convertible preferred units for the account of the selling unitholder named in this prospectus. The common units may be sold in the open market, on the New York Stock Exchange, in privately negotiated transactions or a combination of these methods. We will not receive any of the proceeds from the sale of the common units contemplated by this prospectus.

Our common units are quoted on the New York Stock Exchange under the symbol APL. The last reported sales price of our common units was \$43.44 per unit on August 23, 2006.

**Investing in our common units involves risks. You should carefully consider the risks described under Risk Factors beginning on page 2 of this prospectus before you make an investment in our securities.**

Our principal executive offices are located at 311 Rouser Road, Moon Township, PA 15108. Our telephone number is (412) 262-2830.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Prospectus dated \_\_\_\_\_, 2006

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*No dealer, salesperson or other individual has been authorized to give any information or make any representations not contained in this prospectus in connection with the offering made by this prospectus. If given or made, such information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of our securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this prospectus or in the affairs of our company since the date hereof.*

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**GUIDE TO READING THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process or continuous offering process. Under this shelf registration process, the selling unitholder may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities which may be offered by the selling unitholder. Additional information, including our financial statements and the notes thereto, is incorporated in this prospectus by reference to our reports filed with the SEC. See [Where You Can Find More Information](#). You are urged to read this prospectus, including the [Risk Factors](#), and our SEC reports in their entirety.

The following information should help you understand some of the terms used in this prospectus. Unless the context indicates otherwise:

the terms [the Partnership](#), [we](#), [our](#) and [us](#) refer to Atlas Pipeline Partners, L.P. and its subsidiaries;

the term [our general partner](#) refers to Atlas Pipeline Partners GP, LLC, a wholly-owned subsidiary of Atlas America, Inc., which we refer to as [Atlas America](#) ;

[we](#) refer to natural gas liquids, such as ethane, propane, normal butane, isobutane and natural gasoline, as [NGLs](#) ; and

[we](#) refer to the Federal Energy Regulatory Commission as [FERC](#) .

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**INFORMATION ABOUT ATLAS PIPELINE PARTNERS, L.P.**

Atlas Pipeline Partners, L.P. (NYSE: APL) is a publicly-traded midstream energy services provider engaged in the transmission, gathering and processing of natural gas. We are a leading provider of natural gas gathering services in the Anadarko Basin and Golden Trend area of the mid-continent United States and in the Appalachian Basin in the eastern United States. In addition, we are a leading provider of natural gas processing services in Oklahoma. We also provide interstate gas transmission services in southeastern Oklahoma, Arkansas and southeastern Missouri. We conduct our business through two operating segments: our Mid-Continent operations and our Appalachian operations.

We own and operate through our Mid-Continent operations:

a FERC-regulated, 565-mile interstate pipeline system, which we refer to as Ozark Gas Transmission, that extends from southeastern Oklahoma through Arkansas and into southeastern Missouri;

two natural gas processing plants and one treating facility, each located in Oklahoma; and

1,765 miles of active natural gas gathering systems located in Oklahoma, Arkansas, northern Texas and the Texas panhandle, which transport gas from wells and central delivery points in the Mid-Continent region to our natural gas processing plants or Ozark Gas Transmission.

We own and operate through our Appalachian operations 1,500 miles of intrastate natural gas gathering systems located in eastern Ohio, western New York and western Pennsylvania. We gather substantially all of the natural gas for our Appalachian Basin operations from wells operated by Atlas America pursuant to an omnibus and other agreements with it. Atlas America is the parent of our general partner and a leading sponsor of natural gas drilling investment partnerships in the Appalachian Basin.

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**RISK FACTORS**

*You should consider the following risk factors together with all of the other information included or incorporated by reference in this prospectus in evaluating an investment in our securities. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our securities could decline and you may lose some or all of your investment.*

**Risks Relating to Our Business**

**The amount of cash we generate depends in part on factors beyond our control.**

The actual amounts of cash we generate will depend upon numerous factors relating to our business which may be beyond our control, including:

the demand for and price of natural gas and NGLs;

the volume of natural gas we transport;

expiration of significant contracts;

continued development of wells for connection to our gathering systems;

the availability of local, intrastate and interstate transportation systems;

the expenses we incur in providing our gathering services;

the cost of acquisitions and capital improvements;

our issuance of equity securities;

required principal and interest payments on our debt;

fluctuations in working capital;

prevailing economic conditions;

fuel conservation measures;

alternate fuel requirements;

government regulation and taxation; and

technical advances in fuel economy and energy generation devices.

Our financial and operating performance may fluctuate significantly from quarter to quarter. We may be unable to continue to generate sufficient cash flow to make distributions to our unitholders or to meet our working capital, capital expenditure or debt service requirements. If we are unable to do so, we may be required to sell assets or equity, reduce capital expenditures, refinance all or a portion of our existing indebtedness or obtain additional financing. We may be unable to do so on acceptable terms, or at all.

**Our profitability is affected by the volatility of prices for natural gas and NGL products.**

We derive a substantial portion of our revenues from percentage-of-proceeds contracts. As a result, our income depends to a significant extent upon the prices at which the natural gas we transport, treat or process and the NGLs we produce are sold. Additionally, changes in natural gas prices may indirectly impact our profitability since prices can influence drilling activity and well operations and thus the volume of gas we gather and process. Historically, the price of both natural gas and NGLs has been subject to significant volatility in response to relatively minor changes in the supply and demand for natural gas and NGL products, market uncertainty and a variety of additional factors beyond our control, including those we describe in The amount of cash we

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generate depends in part on factors beyond our control. We expect this volatility to continue. This volatility may cause our gross margin and cash flows to vary widely from period to period. Our hedging strategies may not be sufficient to offset price volatility risk and, in any event, do not cover all of the throughput volumes subject to percentage-of-proceeds contracts. Moreover, hedges are subject to inherent risks, which we describe in Our hedging strategies may fail to protect us and could reduce our gross margin and cash flow.

### **The amount of natural gas we transport will decline over time unless we are able to attract new wells to connect to our gathering systems.**

Production of natural gas from a well generally declines over time until the well can no longer economically produce natural gas and is plugged and abandoned. Failure to connect new wells to our gathering systems could, therefore, result in the amount of natural gas we transport reducing substantially over time and could, upon exhaustion of the current wells, cause us to abandon one or more of our gathering systems and, possibly, cease operations. The primary factors affecting our ability to connect new supplies of natural gas to our gathering systems include our success in contracting for existing wells that are not committed to other systems, the level of drilling activity near our gathering systems and, in the Mid-Continent region, our ability to attract natural gas producers away from our competitors' gathering systems. Fluctuations in energy prices can greatly affect production rates and investments by third parties in the development of new natural gas reserves. Drilling activity generally decreases as oil and natural gas prices decrease. We have no control over the level of drilling activity in our service areas, the amount of reserves underlying wells that connect to our systems and the rate at which production from a well will decline. In addition, we have no control over producers or their production decisions, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, the level of reserves, geological considerations, governmental regulation and the availability and cost of capital. Because our operating costs are fixed to a significant degree, a reduction in the natural gas volumes we transport or process would result in a reduction in our gross margin, which we define as total operating revenues less total related operating costs, and cash flows.

### **The success of our Appalachian operations depends upon Atlas America's ability to drill and complete commercial producing wells.**

Substantially all of the wells we connect to our gathering systems in our Appalachian service area are drilled and operated by Atlas America for drilling investment partnerships sponsored by it. As a result, our Appalachian operations depend principally upon the success of Atlas America in sponsoring drilling investment partnerships and completing wells for these partnerships. Atlas America operates in a highly competitive environment for acquiring undeveloped leasehold acreage and attracting capital. Atlas America may not be able to compete successfully in the future in acquiring undeveloped leasehold acreage or in raising additional capital through its drilling investment partnerships. Furthermore, Atlas America is not required to connect wells for which it is not the operator to our gathering systems. If Atlas America cannot or does not continue to sponsor drilling investment partnerships, if the amount of money raised by those partnerships decreases, or if the number of wells actually drilled and completed as commercially producing wells decreases, the amount of natural gas transported by our Appalachian gathering systems would substantially decrease and could, upon exhaustion of the wells currently connected to our gathering systems, cause us to abandon one or more of our Appalachian gathering systems, thereby materially reducing our gross margin, and cash flows.

### **The failure of Atlas America to perform its obligations under our natural gas gathering agreements with it may adversely affect our business.**

Substantially all of our Appalachian operating system revenues currently consist of the fees we receive under the master natural gas gathering agreement and other transportation agreements we have with Atlas America and its affiliates. We expect to derive a material portion of our gross margin from the services we provide under our contracts with Atlas America for the foreseeable future. Any factor or event adversely affecting Atlas America's business or its ability to perform under its contracts with us or any default or nonperformance by Atlas America of its contractual obligations to us, could reduce our gross margin and cash flows.

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**The success of our Mid-Continent operations depends upon our ability to continually find and contract for new sources of natural gas supply from unrelated third parties.**

Unlike our Appalachian operations, none of the drillers or operators in our Mid-Continent service area is an affiliate of ours. Moreover, our agreements with most of the drillers and operators with which our Mid-Continent operations do business do not require them to dedicate significant amounts of undeveloped acreage to our systems. As a result, we do not have assured sources to provide us with new wells to connect to our Mid-Continent gathering systems. Failure to connect new wells to our Mid-Continent operations will, as described in [Item 10](#), reduce the amount of natural gas we transport will decline over time unless we are able to attract new wells to connect to our gathering systems, reduce our gross margin and cash flows.

**Our Mid-Continent operations currently depend on certain key producers for their supply of natural gas; the loss of any of these key producers could reduce our revenues.**

During 2005, Chesapeake Energy Corporation, Kaiser-Francis Oil Company, Burlington Resources Inc., St. Mary Land and Exploration Company and Samson Resources Co. provided our Mid-Continent systems with a majority of their natural gas supply. If these producers reduce the volumes of natural gas that they supply to us, our gross margin and cash flows would be reduced unless we obtain comparable supplies of natural gas from other producers.

**The curtailment of operations at, or closure of, either of our processing plants could harm our business.**

Our Mid-Continent operations currently have two active processing plants, one for our Elk City, Oklahoma, service area and one for our Velma, Oklahoma, service area. If operations at either plant were to be curtailed, or closed, whether due to accident, natural catastrophe, environmental regulation or for any other reason, our ability to process natural gas from the relevant gathering system and, as a result, our ability to extract and sell NGLs, would be harmed. If this curtailment or stoppage were to extend for more than a short period, our gross margin and cash flows would be materially reduced.

**We may face increased competition in the future in our Mid-Continent service areas.**

Our Mid-Continent operations may face competition for well connections. Duke Energy Field Services, LLC, ONEOK, Inc., Carrera Gas Company, Cimarron Transportation, LLC and Enogex, Inc. operate competing gathering systems and processing plants in our Velma service area. In our Elk City service area, ONEOK Field Services, Eagle Rock Midstream Resources, L.P., Enbridge Energy Partners, L.P., CenterPoint Energy, Inc. and Enogex, Inc. operate competing gathering systems and processing plants. Some of our competitors have greater financial and other resources than we do. If these companies become more active in our Mid-Continent service areas, we may not be able to compete successfully with them in securing new well connections or retaining current well connections. If we do not compete successfully, the amount of natural gas we transport, process and treat will decrease, reducing our gross margin and cash flows.

**The amount of natural gas we transport, treat or process may be reduced if the public utility and interstate pipelines to which we deliver natural gas cannot or will not accept the gas.**

Our gathering systems principally serve as intermediate transportation facilities between sales lines from wells connected to our systems and the public utility or interstate pipelines to which we deliver natural gas. If one or more of these pipelines has service interruptions, capacity limitations or otherwise does not accept the natural gas we transport, and we cannot arrange for delivery to other pipelines, local distribution companies or end users, the amount of natural gas we transport may be reduced. Since our revenues depend upon the volumes of natural gas we transport, this could result in a material reduction in our gross margin and cash flows.

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**We may be unsuccessful in integrating the operations from our recent acquisitions or any future acquisitions with our operations and in realizing all of the anticipated benefits of these acquisitions.**

We made two significant acquisitions in 2005 and are currently in the process of integrating their operations with ours. We also have an active, on-going program to identify other potential acquisitions. The integration of previously independent operations with ours can be a complex, costly and time-consuming process. The difficulties of combining our recent acquisitions, as well as any operations we may acquire in the future, with us include, among other things:

operating a significantly larger combined entity;

the necessity of coordinating geographically disparate organizations, systems and facilities;

integrating personnel with diverse business backgrounds and organizational cultures;

consolidating operational and administrative functions;

integrating internal controls, compliance under Sarbanes-Oxley Act of 2002 and other corporate governance matters;

the diversion of management's attention from other business concerns;

customer or key employee loss from the acquired businesses;

significant increases in our indebtedness; and

potential environmental or regulatory liabilities and title problems.

The process of combining companies, or the failure to integrate them successfully, could harm our business or future prospects and result in significant decreases in our gross margin and cash flows.

**The acquisitions of our Velma, Elk City and NOARK operations, which comprise our Mid-Continent operations, have substantially changed our business, making it difficult to evaluate our business based upon our historical financial information.**

The acquisitions in 2004 and 2005 of our Velma, Elk City and NOARK operations, which comprise our Mid-Continent operations, have significantly increased our size and substantially redefined our business plan, expanded our geographic market and resulted in large changes to our revenues and expenses. As a result of these acquisitions, and our continued plan to acquire and integrate additional companies that we believe present attractive opportunities, our financial results for any period or changes in our results across periods may continue to dramatically change. Our historical financial results, therefore, should not be relied upon to accurately predict our future operating results, thereby making the evaluation of our business more difficult.

**Before acquiring our Velma and Elk City operations, we had no previous experience either in the Mid-Continent service area or in operating natural gas processing plants.**

Our Mid-Continent gathering systems are located principally in Oklahoma and northern Texas, areas in which we have been involved only since July 2004 as a result of the Velma acquisition and, subsequently, the Elk City acquisition in April 2005 and the NOARK acquisition in

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October 2005. In addition, as a result of these acquisitions, we began to operate natural gas processing plants, a business in which we had no prior operating experience. We depend upon the experience, knowledge and business relationships that have been developed by the senior management of our Mid-Continent operations to operate successfully in the region. The loss of the services of one or more members of our Mid-Continent senior management, in particular, Robert R. Firth, President, and David D. Hall, Chief Financial Officer, could limit our growth or ability to maintain our current level of operations in the Mid-Continent region.

**Due to our lack of asset diversification, negative developments in our operations would reduce our ability to make distributions to our unitholders.**

We rely exclusively on the revenues generated from our transportation, gathering and processing operations, and as a result, our financial condition depends upon prices of, and continued demand for, natural gas and NGLs.

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Due to our lack of diversification in asset type, a negative development in one of these businesses would have a significantly greater impact on our financial condition and results of operations than if we maintained a more diverse asset base.

### **Our construction of new assets may not result in revenue increases and is subject to regulatory, environmental, political, legal and economic risks, which could impair our results of operations and financial condition.**

One of the ways we may grow our business is through the construction of new assets, such as the natural gas processing plant we are currently constructing in Sweetwater, Oklahoma, as a part of our Mid-Continent operations. The construction of additions or modifications to our existing systems and facilities, and the construction of new assets, involve numerous regulatory, environmental, political and legal uncertainties beyond our control and require the expenditure of significant amounts of capital. Any projects we undertake may not be completed on schedule at the budgeted cost, or at all. Moreover, our revenues may not increase immediately after we expend funds on a particular project. For instance, if we expand a gathering system, the construction may occur over an extended period of time, and we will not receive any material increases in revenues until the project is completed. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which growth does not materialize. Since we are not engaged in the exploration for and development of natural gas reserves, we often do not have access to estimates of potential reserves in an area before constructing facilities in the area. To the extent we rely on estimates of future production in our decision to construct additions to our systems, the estimates may prove to be inaccurate because there are numerous uncertainties inherent in estimating quantities of future production. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return. In addition, our actual revenues from a project could materially differ from expectations as a result of changes in the price of natural gas, the NGL content of the natural gas processed and other economic factors described in this section.

In addition to the risks discussed above, revenue we expect to generate from the Sweetwater natural gas treatment plant we are currently constructing could be reduced or delayed due to the following reasons:

difficulties in obtaining equity or debt financing for construction and operating costs;

difficulties in obtaining permits or other regulatory or third party consents;

construction and operating costs exceeding budget estimates;

revenue being less than expected due to lower commodity prices or lower demand;

difficulties in obtaining consistent supplies of natural gas; and

terms in operating agreements that are not favorable to us.

**If we are unable to obtain new rights-of-way or the cost of renewing existing rights-of-way increases, then we may be unable to fully execute our growth strategy and our cash flows could be reduced.**

The construction of additions to our existing gathering assets may require us to obtain new rights-of-way before constructing new pipelines. We may be unable to obtain rights-of-way to connect new natural gas supplies to our existing gathering lines or capitalize on other attractive expansion opportunities. Additionally, it may become more expensive for us to obtain new rights-of-way or to renew existing rights-of-way. If the cost of obtaining new rights-of-way or renewing existing rights-of-way increases, then our cash flows could be reduced.

**Regulation of our gathering operations could increase our operating costs, decrease our revenues, or both.**

Currently our gathering of natural gas from wells is exempt from regulation under the Natural Gas Act of 1938. However, the implementation of new laws or policies, or interpretations of existing laws, could subject us to regulation by FERC under the Natural Gas Act. We expect that any such regulation would increase our costs, decrease our gross margin and cash flows, or both.



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FERC regulation will still affect our business and the market for our products. FERC's policies and practices affect a range of our natural gas pipeline activities, including, for example, its policies on open access transportation, ratemaking, capacity release, and market center promotion, which indirectly affect intrastate markets. In recent years, FERC has pursued pro-competitive policies in its regulation of interstate natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas transportation capacity.

Other state and local regulations will also affect our business. Matters subject to regulation include rates, service and safety. Our gathering lines are subject to ratable take and common purchaser statutes in Texas and Oklahoma. Ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes restrict our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas.

Federal law leaves any economic regulation of natural gas gathering to the states. Texas and Oklahoma have adopted complaint-based regulation of natural gas gathering activities, which allows natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and, in Texas and Oklahoma, with respect to rate discrimination. Should a complaint be filed or regulation by the Texas Railroad Commission or Oklahoma Corporation Commission become more active, our revenues could decrease.

Increased regulatory requirements relating to the integrity of the Ozark Gas Transmission pipeline will require it to spend additional money to comply with these requirements. Ozark Gas Transmission is subject to extensive laws and regulations related to pipeline integrity. For example, federal legislation signed into law in December 2002 includes guidelines for the U.S. Department of Transportation and pipeline companies in the areas of testing, education, training and communication. Compliance with existing and recently enacted regulations requires significant expenditures. Additional laws and regulations that may be enacted in the future, such as U.S. Department of Transportation implementation of additional hydrostatic testing requirements, could significantly increase the amount of these expenditures.

**Ozark Gas Transmission is subject to FERC rate-making policies that could have an adverse impact on our ability to establish rates that would allow us to recover the full cost of operating the pipeline.**

Rate-making policies by FERC could affect Ozark Gas Transmission's ability to establish rates, or to charge rates that would cover future increases in its costs, or even to continue to collect rates that cover current costs. FERC-regulated natural gas companies may not charge rates that have been determined not to be just and reasonable by FERC. The rates, terms and conditions of service provided by regulated natural gas companies are required to be on file with FERC in FERC-approved tariffs. Pursuant to FERC's jurisdiction over rates, existing rates may be challenged by complaint and proposed rate increases may be challenged by protest. We cannot assure you that FERC will continue to pursue its approach of pro-competitive policies as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas capacity and transportation facilities. Any successful complaint or protest against Ozark Gas Transmission's rates could reduce our revenues associated with providing transmission services. We cannot assure you that we will be able to recover all of Ozark Gas Transmission's costs through existing or future rates.

**Ozark Gas Transmission is subject to regulation by FERC in addition to FERC rules and regulations related to the rates it can charge for its services.**

FERC's regulatory authority also extends to:

operating terms and conditions of service;

the types of services Ozark Gas Transmission may offer to its customers;

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construction of new facilities;

acquisition, extension or abandonment of services or facilities;

accounts and records; and

relationships with affiliated companies involved in any aspect of the natural gas and energy businesses.

FERC action in any of these areas or modifications of its current regulations can impair Ozark Gas Transmission's ability to compete for business, the costs it incurs in its operations, the construction of new facilities or its ability to recover the full cost of operating its pipeline. For example, the development of uniform interstate gas quality standards by FERC could create two distinct markets for natural gas – an interstate market subject to uniform minimum quality standards and an intrastate market with no uniform minimum quality standards. Such a bifurcation of markets could make it difficult for our pipelines to compete in both markets or to attract certain gas supplies away from the intrastate market. The time FERC takes to approve the construction of new facilities could raise the costs of our projects to the point where they are no longer economic.

FERC has authority to review pipeline contracts. If FERC determines that a term of any such contract deviates in a material manner from a pipeline's tariff, FERC typically will order the pipeline to remove the term from the contract and execute and refile a new contract with FERC or, alternatively, to amend its tariff to include the deviating term, thereby offering it to all shippers. If FERC audits a pipeline's contracts and finds deviations that appear to be unduly discriminatory, FERC could conduct a formal enforcement investigation, resulting in serious penalties and/or onerous ongoing compliance obligations.

Should Ozark Gas Transmission fail to comply with all applicable FERC administered statutes, rules, regulations and orders, it could be subject to substantial penalties and fines. Under the recently enacted Energy Policy Act of 2005, FERC has civil penalty authority under the Natural Gas Act to impose penalties for current violations of up to \$1,000,000 per day for each violation.

**Compliance with pipeline integrity regulations issued by the United States Department of Transportation and state agencies could result in substantial expenditures for testing, repairs and replacement.**

United States Department of Transportation and state agency regulations require pipeline operators to develop integrity management programs for transportation pipelines located in high consequence areas. The regulations require operators to:

perform ongoing assessments of pipeline integrity;

identify and characterize applicable threats to pipeline segments that could impact a high consequence area;

improve data collection, integration and analysis;

repair and remediate the pipeline as necessary; and

implement preventative and mitigating actions.

We do not believe that the cost of implementing integrity management program testing along certain segments of our pipeline will have a material effect on our results of operations. This does not include the costs, if any, of any repair, remediation, preventative or mitigating actions that may be determined to be necessary as a result of the testing program, which costs could be substantial.

**Our midstream natural gas operations may incur significant costs and liabilities resulting from a failure to comply with new or existing environmental regulations or a release of hazardous substances into the environment.**

The operations of our gathering systems, plant and other facilities are subject to stringent and complex federal, state and local environmental laws and regulations. These laws and regulations can restrict or impact our

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business activities in many ways, including restricting the manner in which we dispose of substances, requiring remedial action to remove or mitigate contamination, and requiring capital expenditures to comply with control requirements. Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint and several liability for costs required to clean up and restore sites where substances and wastes have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of substances or wastes into the environment.

There is inherent risk of the incurrence of environmental costs and liabilities in our business due to our handling of natural gas and other petroleum products, air emissions related to our operations, historical industry operations including releases of substances into the environment, and waste disposal practices. For example, an accidental release from one of our pipelines or processing facilities could subject us to substantial liabilities arising from environmental cleanup, restoration costs and natural resource damages, claims made by neighboring landowners and other third parties for personal injury and property damage, and fines or penalties for related violations of environmental laws or regulations. Moreover, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase our compliance costs and the cost of any remediation that may become necessary. We may not be able to recover some or any of these costs from insurance.

### **We may not be able to execute our growth strategy successfully.**

Our strategy contemplates substantial growth through both the acquisition of other gathering systems and processing assets and the expansion of our existing gathering systems and processing assets. Our growth strategy involves numerous risks, including:

we may not be able to identify suitable acquisition candidates;

we may not be able to make acquisitions or expand our existing systems on economically acceptable terms;

our costs in seeking to make acquisitions or expand existing systems may be material, even if, with respect to acquisitions, we cannot complete any acquisition we have pursued;

irrespective of estimates at the time we make an acquisition or expand our systems, the acquisition or expansion may prove to be dilutive to earnings and operating surplus;

we may encounter difficulties in integrating operations and systems; and

any additional debt we incur to finance an acquisition or expansion may impair our ability to service our existing debt.

### **Limitations on our access to capital will impair our ability to execute our growth strategy.**

Our ability to raise capital for acquisitions and other capital expenditures depends upon ready access to the capital markets. Historically, we have financed our acquisitions and, to a much lesser extent, expansions of our gathering systems by bank credit facilities, the proceeds of public and private equity offerings of our common units, and private offerings of preferred units of our operating partnership. If we are unable to access the capital markets, we may be unable to execute our strategy of growth through acquisitions.

### **Our hedging strategies may fail to protect us and could reduce our gross margin and cash flow.**

We pursue various hedging strategies to seek to reduce our exposure to losses from adverse changes in the prices for natural gas and NGLs. Our hedging activities will vary in scope based upon the level and volatility of natural gas and NGL prices and other changing market conditions. Our hedging activity may fail to protect or could harm us because, among other things:

hedging can be expensive, particularly during periods of volatile prices;

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available hedges may not correspond directly with the risks against which we seek protection;

the duration of the hedge may not match the duration of the risk against which we seek protection; and

the party owing money in the hedging transaction may default on its obligation to pay.

**We are subject to operating and litigation risks that may not be covered by insurance.**

Our operations are subject to all operating hazards and risks incidental to transporting and processing natural gas and NGLs. These hazards include:

damage to pipelines, plants, related equipment and surrounding properties caused by floods and other natural disasters;

inadvertent damage from construction and farm equipment;

leakage of natural gas, NGLs and other hydrocarbons;

fires and explosions;

other hazards, including those associated with high-sulfur content, or sour gas, that could also result in personal injury and loss of life, pollution and suspension of operations; and

acts of terrorism directed at our pipeline infrastructure, production facilities, transmission and distribution facilities and surrounding properties.

As a result, we may be a defendant in various legal proceedings and litigation arising from our operations. We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for some of our insurance policies have increased substantially, and could escalate further. In some instances, insurance could become unavailable or available only for reduced amounts of coverage. For example, insurance carriers are now requiring broad exclusions for losses due to war risk and terrorist acts. If we were to incur a significant liability for which we were not fully insured, our gross margin and cash flows would be materially reduced.

### **Risks Inherent in an Investment in Us**

**You will have very limited voting rights and ability to control management, which may diminish the price at which the common units will trade.**

Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its managing board on an annual or other continuing basis. The managing board of our general partner is chosen by Atlas America.

In addition, our general partner may be removed only upon the vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding common units, excluding common units held by our general partner and its affiliates, and a successor general partner must be elected by a vote of the holders of at least a majority of the outstanding common units, excluding common units held by our general partner and its affiliates. Further, if any person or group, other than our general partner or its affiliates, acquires beneficial ownership of 20% or more of any class of units, that person or group will lose voting rights for all of its units. These provisions have the practical effect of making removal of our general partner difficult. Our partnership agreement requires that amendments to our partnership agreement must first be proposed or consented to by our general partner

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before they can be considered by unitholders. As a result, unitholders will not be able to initiate amendments to our partnership agreement not supported by our general partner. These provisions may diminish the price at which the common units trade.

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**Our partnership agreement contains provisions that will discourage attempts to change control of us, which may diminish the price at which the common units trade and may prevent a change of control even if doing so would be beneficial to the holders of common units.**

Our partnership agreement contains provisions that may discourage a person or group from attempting to remove our general partner or otherwise seeking to change our management. As described in the immediately preceding risk factor, any person or group, other than our general partner or its affiliates, that acquires beneficial ownership of 20% or more of any class of units will lose voting rights for all of its units. In addition, if our general partner is removed under circumstances where cause does not exist and our general partner does not consent to that removal, then:

the obligations of Atlas America under the omnibus agreement to connect wells to our Appalachian Basin gathering systems and to provide assistance for the expansion of our Appalachian Basin gathering systems will terminate;

the obligations of Atlas America under the master natural gas gathering agreement will terminate as to any future wells drilled and completed by Atlas America; and

our general partner will have the right to convert its general partner interest and incentive distribution rights into common units or receive cash in exchange for those interests.

These provisions may diminish the price at which the common units trade. These provisions may also prevent a change of control of us even if a change of control would be beneficial to the holders of the common units.

**We may issue additional common units or securities senior to the common units without your approval, which would dilute existing unitholders' interests.**

Our general partner can cause us to issue additional common units without the approval of unitholders. We may also issue securities senior to the common units without the approval of unitholders. The issuance of additional common units or senior securities may dilute the value of the interests of the existing unitholders in our net assets and dilute the interests of unitholders in distributions by us.

**Future sales of our common units may depress the price of our units.**

Our general partner owns 1,641,026 of our common units which are not currently registered for public resale. We are required to register the common units for resale upon our general partner's demand if our general partner cannot sell them under Rule 144. We cannot predict the effect, if any, that future sales of our common units or the availability of units for future sales will have on the market price of our common units. Sales of substantial amounts of common units or the perception that such sales could occur could reduce the price that our common units might otherwise obtain.

**If Atlas America proceeds with a public offering of securities in an entity that owns our general partner, it may affect the relative attractiveness of an investment in our common units.**

Atlas America has announced that it will transfer its ownership interest in our general partner to a new wholly-owned subsidiary, Atlas Pipeline Holdings, L.P., and then make a registered, initial public offering of a minority interest in Atlas Pipeline Holdings. Atlas Pipeline Holdings has filed a registration statement to effect such an initial public offering. **This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities of Atlas Pipeline Holdings.** If completed, this initial public offering will create an alternative form of investment in our business which some investors may prefer to investing in our common units. The market price of our common units may decline if investors determine that investing in the general partner entity is more attractive than investing in us.

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### **Atlas America and its affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to the detriment of our unitholders.**

Atlas America and its affiliates own and control our general partner. We do not have any employees and rely solely on employees of Atlas America and its affiliates who serve as our agents, including all of the senior managers who operate our business. A number of officers and employees of Atlas America also own interests in us. Conflicts of interest may arise between Atlas America, our general partner and their affiliates, on the one hand, and us, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of its affiliates over our interests and the interests of our unitholders. These conflicts include, among others, the following situations:

Employees of Atlas America who provide services to us also devote significant time to the businesses of Atlas America in which we have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition for the time and effort of the employees who provide services to us, which could result in insufficient attention to the management and operation of our business.

Neither our partnership agreement nor any other agreement requires Atlas America to pursue a future business strategy that favors us or, apart from our agreements with Atlas America relating to our Appalachian region operations, use our assets for transportation or processing services we provide. Atlas America directors and officers have a fiduciary duty to make these decisions in the best interests of the stockholders of Atlas America.

Our general partner is allowed to take into account the interests of parties other than us, such as Atlas America, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to us.

Our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates, including our agreements with Atlas America.

Our general partner has limited its liability, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty.

Our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional limited partner securities and reserves, each of which can affect the amount of cash that we distribute to unitholders.

Our general partner determines which costs incurred by it and its affiliates are reimbursable by us under our partnership agreement.

Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.

Our general partner and its affiliates are not limited in their ability to compete with us, which could cause conflicts of interest and limit our ability to acquire additional assets or businesses.

Our general partner decides whether to retain separate counsel, accountants, or others to perform services for us. Conflicts of interest with Atlas America and its affiliates, including these factors, could exacerbate periods of lower or declining performance, or otherwise reduce our gross margin and cash flows.

**Cost reimbursements due our general partner may be substantial and will reduce the cash available for distributions.**

We reimburse Atlas America, our general partner and their affiliates, including officers and directors of Atlas America, for all expenses they incur on our behalf. Our general partner has sole discretion to determine whether these expenses are reimbursable pursuant to our partnership agreement. In addition, Atlas America and

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its affiliates provide us with services for which we are charged reasonable fees as determined by Atlas America in its sole discretion. The reimbursement of expenses or payment of fees could impair our ability to make distributions.

### **Our general partner has a limited call right that may require you to sell your units at an undesirable time or price.**

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units.

### **You could be liable for any and all of our obligations if a court finds that unitholder action constitutes control of our business.**

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. You could be liable for any and all of our obligations as if you were a general partner if your right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

### **Unitholders may have liability to repay distributions that were wrongfully distributed to them.**

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the substituted limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

## **Tax Risks to Common Unitholders**

For a discussion of the expected material federal income tax consequences of owning and disposing of common units, see **Tax Considerations** in this prospectus.

### **The IRS could treat us as a corporation, which would substantially reduce the cash available for distribution to unitholders.**

The federal income tax benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us. We have, however, received an opinion of Ledgewood, counsel to us and our general partner, that we will be classified as a partnership for federal income tax purposes. Opinions of counsel are based on specific factual assumptions and are not binding on the IRS or any court.

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If we were classified as a corporation for federal income tax purposes, we would pay tax on our income at the corporate tax rate, which is currently 35%. Distributions would generally be taxed again to the unitholders as corporate distributions, and no income, gains, losses or deductions would flow through to unitholders. Because a tax would be imposed upon us as an entity, the cash available for distribution to you would be substantially reduced, likely causing a substantial reduction in the value of the common units.

We cannot assure you that the law will not be changed and cause us to be treated as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then specified provisions of the partnership agreement will be subject to change, including a decrease in distributions to reflect the impact of that law on us.

### **We may incur significant legal, accounting and related costs if the IRS challenges the federal income tax positions we take.**

We have not requested a ruling from the IRS with respect to any matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus supplement or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain counsel's conclusions or the positions we take. A court may not concur with our conclusions. Any contest with the IRS may materially and negatively impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees and expenses, will be borne directly or indirectly by our unitholders and our general partner.

### **You may be required to pay taxes on income from us even if you do not receive cash distributions.**

You will be required to pay federal income taxes and, in certain cases, state and local income taxes on your allocable share of our income, whether or not you receive cash distributions from us. We cannot assure you that you will receive cash distributions equal to your allocable share of our taxable income or even equal to the tax liability to you resulting from that income. Further, you may incur a tax liability in excess of the amount of cash received upon the sale of your common units or upon our liquidation.

In prior taxable years, unitholders received cash distributions that exceeded the amount of taxable income allocated to the unitholders. This excess was partially the result of depreciation deductions, but was primarily the result of special allocations to our general partner of taxable income earned by our operating subsidiary, which caused a corresponding reduction in the amount of taxable income allocable to us. Our general partner has agreed to receive additional special allocations from our operating subsidiary through the year 2006. We describe these special allocations in Tax Considerations Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions. Since these special allocations increase our general partner's capital account, it will receive an increased distribution upon our liquidation and distributions to unitholders will be correspondingly reduced.

### **Tax gain or loss on disposition of common units could be different than expected.**

Upon the sale of common units, you will recognize gain or loss equal to the difference between the amount realized and your adjusted tax basis in those common units. Prior distributions in excess of the net taxable income you were allocated for a common unit which decreased your tax basis in that common unit will, in effect, become taxable income if you sell the common unit at a price greater than your tax basis in that common unit, even if the price is less than your original cost. A substantial portion of the amount realized, whether or not representing gains, may be ordinary income. Furthermore, should the IRS successfully contest our conventions, including our method of allocating income and loss as between transferors and transferees, you could realize more gain on the s