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ATLAS PIPELINE PARTNERS LP
Form 10-K
March 01, 2004

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

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: 1-14998

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, Pennsylvania
(Address of principal executive office)

15108
(Zip code)

Registrant's telephone number, including area code: (412) 262-2830

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units of Limited Partnership Interest	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

N/A

Title of class

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained,

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to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) of the Act. Yes [X] No []

The aggregate market value of the equity securities held by non-affiliates of the registrant, based on the closing price on June 30, 2003 was approximately \$81.6 million.

DOCUMENTS INCORPORATED BY REFERENCE
None

ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
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PART I

ITEM 1. BUSINESS

THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS REGARDING EVENTS AND FINANCIAL TRENDS WHICH MAY AFFECT OUR FUTURE OPERATING RESULTS AND FINANCIAL POSITION. SUCH STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR ACTUAL RESULTS AND FINANCIAL POSITION TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS. THESE FACTORS INCLUDE FLUCTUATIONS IN THE MARKET FOR NATURAL GAS FROM WHICH OUR REVENUES ARE DERIVED, PRODUCTION DECLINES FROM WELLS SERVICED BY OUR GATHERING SYSTEMS, REDUCED DRILLING FOR NEW WELLS IN OUR SERVICE AREAS AND OUR NEED FOR ADDITIONAL CAPITAL TO EXPAND OUR GATHERING SYSTEMS.

General

We are a Delaware limited partnership with common units traded on the American Stock Exchange under the symbol "APL." We own and operate natural gas pipeline gathering systems through our operating partnership and its operating subsidiaries. As of December 31, 2003, our primary assets consisted of approximately 1,380 miles of intrastate gathering systems located in eastern Ohio, western New York and western Pennsylvania. Our gathering systems served approximately 4,500 wells at December 31, 2003, with an average daily throughput for the year then ended of 52.5 million cubic feet, or Mmcf, of natural gas. Our gathering systems provide a means through which well owners and operators can transport the natural gas produced by their wells to public utility pipelines for delivery to customers. To a lesser extent, our gathering systems transport natural gas directly to customers. Our gathering systems currently connect with public utility pipelines operated by Peoples Natural Gas Company, National Fuel Gas Supply, Tennessee Gas Pipeline Company, National Fuel Gas Distribution Company, East Ohio Gas Company, Columbia of Ohio, Consolidated Natural Gas Co., Texas Eastern Pipeline, Columbia Gas Transmission Corp. and Equitable Utilities. We do not engage in storage or gas marketing programs, nor do we engage in the purchase and resale for our own account of natural gas transported through our gathering systems. During the year ended December 31, 2003, our gathering systems transported 19.2 billion cubic feet, or Bcf, of natural gas, an increase of 4% and 7% from the years ended December 31, 2002 and 2001, respectively. We connected 270 wells to our gathering systems in the year ended December 31, 2003 and have connected 829 wells since we commenced operations in January 2000. In addition, we have added 433 wells through acquisitions of pipelines.

In May 2003, we completed a public offering of 1,092,500 common units of limited partner interest. The net proceeds after underwriting discounts and commissions were approximately \$25.2 million. These proceeds were used in part to repay existing indebtedness of \$8.5 million. We intend to use the balance of these proceeds to fund future capital projects and for working capital.

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In September 2003, we entered into a purchase and sale agreement with SEMCO Energy, Inc., or SEMCO, under which we or our designee will purchase all of the outstanding equity of SEMCO's wholly-owned subsidiary, Alaska Pipeline Company, L.L.C., which owns a 354-mile intrastate natural gas transmission pipeline that delivers gas to metropolitan Anchorage. The total consideration, payable in cash at closing, will be approximately \$95.0 million, subject to an adjustment based on the amount of working capital that Alaska Pipeline has at closing. For a description of how we intend to finance this acquisition, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results

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of Operations-Pending Acquisition." Completion of the transaction is subject to a number of conditions, including receipt of governmental and non-governmental consents and approvals and the absence of a material adverse change in Alaska Pipeline's business. Among the required governmental authorizations are approval of the Regulatory Commission of Alaska and expiration, without adverse action, of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. We received an early termination of the Hart-Scott-Rodino waiting period in January 2004. The purchase and sale agreement may be terminated by either SEMCO or us if the transaction is not completed by June 16, 2004.

Public utility pipelines charge transportation fees to the entity having title to the natural gas being transported, typically the well owner, an intermediate purchaser such as a natural gas distribution company, or a final purchaser. We do not have title to the natural gas gathered and delivered by us and, accordingly, do not pay transportation fees charged by public utility pipelines. We do not transport any oil produced by wells connected to our gathering systems.

We are party to an omnibus agreement with Atlas America, Inc. that is intended to maximize the use and expansion of our gathering systems and the amount of natural gas they transport. Among other things, the omnibus agreement requires Atlas America to install required flow lines and connect wells it operates that are located within 2,500 feet of one of our gathering systems.

We are also party to natural gas gathering agreements with Atlas America under which it pays us gathering fees generally equal to a percentage, generally 16%, of the gross or weighted average sales price of the natural gas we transport subject, in most cases, to minimum prices of \$0.35 or \$0.40 per thousand cubic feet, or Mcf. Our business, therefore, depends in large part on the prices at which the natural gas we transport is sold. Due to the volatility of natural gas prices, our gross revenues can vary materially from period to period. During the year ended December 31, 2003, we received gathering fees averaging \$0.82 per Mcf, while during the years ended December 31, 2002 and 2001, our average gathering fees were \$0.58 and \$0.76 per Mcf, respectively.

Objectives and Strategy

Our objective is to increase cash flow, earnings and returns to our unitholders by:

- o expanding our existing asset base through construction of extensions necessary to service additional wells drilled by Atlas America and others;
- o expanding our existing asset base through accretive acquisitions of gathering systems from others;
- o achieving economies of scale as a result of expanding our operations through extensions and acquisitions; and
- o continuing to strengthen our balance sheet by financing our growth with a combination of long-term debt and equity so as to provide the financial flexibility to fund future opportunities.

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Since commencing operations in January 2000, we have pursued these objectives by:

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- o adding 360 miles of pipeline to our original system;
- o connecting 829 new wells to our pipeline, 770 of which were drilled by Atlas America;
- o acquiring two gathering systems, one in Ohio and one in Pennsylvania, aggregating 120 miles of pipeline with approximately 433 wells connected to those systems; and
- o upgrading our system and substantially expanding our capacity.

We believe that our focus on the mid-stream gas industry, specifically gas gathering systems, the extensive prior experience of our general partner's management in the operation of gathering systems, our position as one of the largest operators of gathering systems in the Appalachian Basin and our relationship with Atlas America provide us with a competitive advantage in executing our growth strategy to achieve our business objectives.

Pipeline Characteristics

We set forth in the following table the volumes of the natural gas we transported, in Mcfs, in the years ended December 31, 2003, 2002 and 2001.

	For the years ended December 31,		
	2003	2002	2001
New York systems.....	449,800	493,600	570,500
Ohio systems.....	5,060,200	5,396,900	5,378,200
Pennsylvania systems.....	13,642,300	12,492,100	11,176,300
	19,152,300	18,382,600	17,125,000

Of the approximately 4,500 wells currently connected to our gathering systems, approximately 4,100 are owned by Atlas America or its affiliates or by investment partnerships managed or operated by Atlas America or its affiliates, with the remainder being owned or managed by third parties. We have agreements with Atlas America and its affiliates relating to the connection of future wells owned or controlled by them to our gathering systems and the transportation fees we will charge. We describe these agreements under "-Agreements with Atlas America." These wells are the principal producers of gas transported by our gathering systems and we anticipate that wells controlled by Atlas America will continue in the future to be the principal producers into our gathering systems. As of December 31, 2003, Atlas America and its affiliates controlled leases on developed properties in the operational area of our gathering systems totaling approximately 226,000 gross acres. In addition, Atlas America and its affiliates control leases on approximately 205,000 undeveloped gross acres of land. During the year ended December 31, 2003, Atlas America and its affiliates drilled and connected 270 wells to our gathering systems as compared to 195 and 196 wells during the years ended December 31, 2002 and 2001, respectively.

The gathering systems are generally constructed with 2, 4, 6, 8 and 12 inch cathodically protected and wrapped steel pipe and are generally buried 36 inches below the ground. Pipelines constructed in this manner typically are expected to last at least 50 years from the date of construction. For the years ended December 31, 2003, 2002 and 2001, the cost of operating the gathering

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systems, excluding depreciation, was approximately \$2.4 million, \$2.1 million and \$1.9 million, respectively. We do not believe that there are any significant geographic limitations upon our ability to expand in the areas served by our gathering systems.

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Our revenues are determined primarily by the amount of natural gas flowing through our gathering systems and the price received for this natural gas. Our ability to increase the flow of natural gas through our gathering systems and to offset the natural decline of the production already connected to our gathering systems will be determined primarily by our ability to connect new wells to our gathering systems and to acquire additional gathering assets.

Agreements with Atlas America

At the completion of our initial public offering, we entered into an omnibus agreement and a master natural gas gathering agreement with Atlas America and two of its affiliates, Resource Energy, Inc. and Viking Resources Corporation. The purpose of these agreements is to maximize the use and expansion of our gathering systems and the volume of natural gas they transport. Since then, we have entered into additional gas gathering agreements with subsidiaries of Atlas America. None of these agreements resulted from arm's length negotiations and, accordingly, we cannot assure you that we could not have obtained more favorable terms from independent third parties similarly situated. However, since these agreements principally involve the imposition of obligations on Atlas America and its affiliates, we do not believe that we could obtain similar agreements from independent third parties.

Omnibus Agreement. Under the omnibus agreement, Atlas America and its affiliates agreed to add wells to the gathering systems and provide consulting services when we construct new gathering systems or extend existing systems. The omnibus agreement also imposes conditions upon our general partner's disposition of its general partner interest in us. The omnibus agreement is a continuing obligation, having no specified term or provisions regarding termination except for a provision terminating the agreement if our general partner is removed as general partner without cause.

Well Connections. Atlas America sponsors oil and gas drilling investment partnerships in areas served by the gathering systems. Under the omnibus agreement, Atlas America must construct up to 2,500 feet of small diameter (two inches or less) sales or flow lines from the wellhead of any well it drills and operates to a point of connection to our gathering systems. Where Atlas America has extended sales and flow lines to within 1,000 feet of one of our gathering systems, we must extend our system to connect to that well.

With respect to wells drilled that are more than 3,500 feet from our gathering systems, we have the right, at our cost, to extend our gathering systems. If we do not elect to extend our gathering systems, Atlas America may connect the wells to an interstate or intrastate pipeline owned by third parties, a local natural gas distribution company or an end user; however, we will have the right to assume the cost of construction of the necessary lines, which then become part of our gathering systems. We must exercise our rights within 30 days of notice to us from Atlas America that it intends to drill on a particular site that is not within 3,500 feet of our gathering systems. If we elect to have the well connected to our gathering systems, we must complete construction of one of our gathering systems to within 2,500 feet of the well within 60 days after Atlas America has notified us that the well will be completed as a producing natural gas well. If we elect to assume the cost of

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constructing lines, Atlas America will be responsible for the construction, and we must pay the cost of that construction within 30 days of Atlas America's invoice.

Consulting Services. The omnibus agreement requires Atlas America to assist us in identifying existing gathering systems for possible acquisition and to provide consulting services to us in evaluating and making a bid for these systems. Any gathering system that Atlas America or its affiliates identify as a potential acquisition must first be offered to us. We will have 30 days to determine whether we want to acquire the identified system and advise Atlas America of our intent. If we intend to acquire the system, we have an additional 60 days to complete the acquisition. If we do not complete the acquisition, or advise Atlas America that we do not intend to acquire the system, then Atlas America may do so.

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Gathering System Construction. The omnibus agreement requires Atlas America to provide us with construction management services if we determine to expand one or more of our gathering systems. We must reimburse Atlas America for its costs, including an allocable portion of employee salaries, in connection with its construction management services.

Construction Financing. The omnibus agreement requires Atlas America to provide us with stand-by financing of up to \$1.5 million per year for the cost of constructing new gathering systems or gathering system expansions until February 2005. If we choose to use the stand-by commitment, the financing will be provided through the purchase by Atlas America of our common units in the amount of the construction costs as they are incurred. The purchase price of the common units will be the average daily closing price for the common units on the American Stock Exchange for the 20 consecutive trading days before the purchase. Construction costs do not include maintenance expenses or capital improvements following construction or costs of acquiring gathering systems. We are not obligated to use the stand-by commitment and may seek financing from other sources. We have not used the stand-by commitment to date.

Disposition of Interest in Our General Partner. Direct and indirect wholly-owned subsidiaries of Atlas America act as the general partners, operators or managers of the drilling investment partnerships sponsored by Atlas America. Our general partner is a subsidiary of Atlas America. Under the omnibus agreement, those subsidiaries, including our general partner, that currently act as the general partners, operators or managers of partnerships sponsored by Atlas America must also act as the general partners, operators or managers for all new drilling investment partnerships sponsored by Atlas America. Atlas America and its affiliates may not divest their ownership of one entity without divesting their ownership of the other entities to the same acquirer. For these purposes, divestiture means a sale of all or substantially all of the assets of an entity, the disposition of more than 50% of the capital stock or equity interest of an entity, or a merger or consolidation that results in Atlas America and its affiliates, on a combined basis, owning, directly or indirectly, less than 50% of the entity's capital stock or equity interest. Atlas America and its affiliates may transfer their interests to each other, or to their wholly or majority-owned direct or indirect subsidiaries, or to a parent of any of them, provided that their combined direct or indirect interest is not reduced to less than 50%.

Natural Gas Gathering Agreements. Under the master natural gas gathering agreement, we receive a fee from Atlas America for gathering natural gas, determined as follows:

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- o for natural gas from well interests allocable to Atlas America, or its subsidiaries (excluding general or limited partnerships sponsored by them) that were connected to our gathering systems at February 2, 2000, the greater of \$0.40 per mcf or 16% of the gross sales price of the natural gas transported;
- o for natural gas from well interests allocable to general and limited partnerships sponsored by Atlas America that are connected to our gathering systems at any time, and well interests allocable to independent third parties in wells connected to our gathering systems before February 2, 2000, the greater of \$0.35 per Mcf or 16% of the gross sales price of the natural gas transported;
- o for natural gas from well interests allocable to Atlas America that are connected to our gathering systems after February 2, 2000, the greater of \$0.35 per Mcf or 16% of the gross sales price of the natural gas transported; and
- o for natural gas from well interests operated by Atlas America and drilled after December 1, 1999 that are connected to a gathering system that is not owned by us and for which we assume the cost of constructing the connection to that gathering system, an amount equal to the greater of \$0.35 per Mcf or 16% of the gross sales price of the natural gas transported, less the gathering fee charged by the other gathering system.

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Atlas America receives gathering fees from contracts or other arrangements with third party owners of well interests connected to our gathering systems. However, Atlas America must pay gathering fees owed to us from its own resources regardless of whether it receives payment under those contracts or arrangements.

The master natural gas gathering agreement is a continuing obligation and, accordingly, has no specified term or provisions regarding termination. However, if our general partner is removed as our general partner without cause, then no gathering fees will be due under the agreement with respect to new wells drilled by Atlas America. The agreement provides that Atlas America, as the shipper of natural gas, will indemnify us against claims relating to ownership of the natural gas transported. For all other claims relating to natural gas we transport, the party that has control and possession of the natural gas must indemnify the other party with respect to losses arising in connection with or related to the natural gas when it is in the first party's possession and control.

In addition to the master natural gas gathering agreement, we have three other gas gathering agreements with subsidiaries of Atlas America. Under two of these agreements, relating to wells located in southeastern Ohio which Atlas America acquired from Kingston Oil Corporation and wells located in Fayette County, Pennsylvania which Atlas America acquired from American Refining and Exploration Company, we receive a fee of \$0.80 per Mcf. Under the third agreement, which covers wells owned by third parties unrelated to Atlas America or the investment partnerships it sponsors, we receive fees that range between \$0.20 to \$0.29 per Mcf or between 10% to 16% of the weighted average sales price for the natural gas we transport.

Credit Facility

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We have a \$20.0 million credit facility administered by Wachovia Bank, National Association. Borrowings under the facility are secured by a lien on and security interest in all of our property and that of our subsidiaries. Up to \$3.0 million of the facility may be used for standby letters of credit. The credit facility has a term ending in December 2005 and bears interest at one of two rates, elected at our option:

- o the base rate plus the applicable margin; or
- o the adjusted London Interbank Offered Rate, or LIBOR, plus the applicable margin.

The base rate for any day equals the higher of the federal funds rate plus 1/2 of 1% or the Wachovia Bank prime rate. Adjusted LIBOR is LIBOR divided by 1.00 minus the percentage prescribed by the Federal Reserve Board for determining the reserve requirement for euro currency funding. The applicable margin is as follows:

- o where our leverage ratio, that is, the ratio of our debt to EBITDA, as defined in the credit facility agreement, is less than or equal to 1.5, the applicable margin is 0.00% for base rate loans and 1.50% for LIBOR loans;
- o where our leverage ratio is greater than 1.5 but less than or equal to 2.5, the applicable margin is 0.25% for base rate loans and 1.75% for LIBOR loans;
- o where our leverage ratio is greater than 2.5 but less than or equal to 3.0, the applicable margin is 0.50% for base rate loans and 2.00% for LIBOR loans; and
- o where our leverage ratio is greater than 3.0, the applicable margin is 0.75% for base rate loans and 2.50% for LIBOR loans.

The credit facility requires us to maintain specified net worth and specified ratios of current assets to current liabilities and debt to EBITDA, and requires us to maintain a specified interest coverage ratio.

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Competition

Our gathering systems do not encounter direct competition in their respective service areas since Atlas America controls the majority of the drillable acreage in each area. However, because we principally serve wells drilled by Atlas America we are affected by competitive factors affecting Atlas America's ability to obtain properties and drill wells, which affects our ability to expand our gathering systems and to maintain or increase the volume of natural gas we transport and, thus, our transportation revenues. Atlas America also may encounter competition in obtaining drilling services from third-party providers. Any competition it encounters could delay Atlas America in drilling wells for its sponsored partnerships, and thus delay the connection of wells to our gathering systems. These delays would reduce the volume of gas we otherwise would have transported, thus reducing our potential transportation revenues.

As our omnibus agreement with Atlas America generally requires it to connect wells it operates to our system, we do not expect any direct competition

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in connecting wells drilled and operated by Atlas America in the future. In addition, we occasionally connect wells operated by third parties. During 2003 we connected no such wells. We did not encounter, nor do we expect, significant competition to connect such wells as they are generally in close proximity to our gathering system and distant from others. In any case, revenue derived from the gas transportation on behalf of third parties represents an insignificant portion of our annual revenue.

During 2003 we encountered competition in acquiring gas gathering systems owned by third parties. In several instances we submitted bids in auction situations and in direct negotiations for the acquisition of existing gas gathering systems. Except for our bid for Alaska Pipeline, in each case we were either outbid by others or were unwilling to meet the sellers' expectations and, as a result, were unsuccessful in acquiring those systems. In the future, we expect to encounter equal if not greater competition for gathering system acquisitions because, as gas prices increase, the economic attractiveness of owning gathering systems increases.

Regulation

Federal Regulation. Under the Natural Gas Act, the Federal Energy Regulatory Commission regulates various aspects of the operations of any "natural gas company," including the transportation of natural gas, rates and charges, construction of new facilities, extension or abandonment of services and facilities, the acquisition and disposition of facilities, reporting requirements, and similar matters. However, the Natural Gas Act definition of a "natural gas company" requires that the company be engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of natural gas for resale. Since we believe that each of our individual gathering systems performs primarily a gathering function, we believe that we are not subject to regulation under the Natural Gas Act. If we were determined to be a natural gas company, our operations would become regulated under the Natural Gas Act. We believe the expenses associated with seeking certificates of authority for construction, service and abandonment, establishing rates and a tariff for our gas gathering activities, and meeting the detailed regulatory accounting and reporting requirements would substantially increase our operating costs and would adversely affect our profitability, thereby reducing our ability to make distributions to unitholders.

State Regulation. Our operations are subject to regulation at the state level. The Public Utility Commission of Ohio, the New York Public Service Commission and the Pennsylvania Public Utilities Commission regulate the transportation of natural gas in their respective states. In Ohio, a producer or gatherer of natural gas may file an application seeking exemption from regulation as a public utility. We have been granted an exemption by the Public Utility Commission of Ohio for our Ohio facilities. The New York Public Service Commission imposes traditional public utility regulation on the transportation of natural gas by companies subject to its regulation. This regulation includes rates, services and siting authority for the construction of certain facilities. Our gas gathering operations currently are not subject to regulation by the New York Public Service Commission. Our operations in Pennsylvania currently are not subject to the Pennsylvania Public Utility Commission's regulatory authority since they do not provide service to the public generally and, accordingly, do not constitute the operation of a public utility. In the event the New York and Pennsylvania authorities seek to regulate our operations,

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we believe that our operating costs could increase and our transportation fees could be adversely affected, thereby reducing our net revenues and ability to

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make distributions to unitholders.

Environmental and Safety Regulations. Under the Comprehensive Environmental Response, Compensation and Liability Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act and other federal and state laws relating to the environment, owners of natural gas pipelines can be liable for fines, penalties and clean-up costs with respect to pollution caused by the pipelines. Moreover, the owners' liability can extend to pollution costs from situations that occurred prior to their acquisition of the pipeline. Natural gas pipelines are also subject to safety regulation under the Natural Gas Pipeline Safety Act of 1968 and the Pipeline Safety Act of 1992 which, among other things, dictate the type of pipeline, quality of pipeline, depth, methods of welding and other construction-related standards. The state public utility regulators discussed above have either adopted the federal standards or promulgated their own safety requirements consistent with federal regulations. Although we believe that our gathering systems comply in all material respects with applicable environmental and safety regulations, risks of substantial costs and liabilities are inherent in pipeline operations, and we cannot assure you that we will not incur these costs and liabilities. Moreover, it is possible that other developments, such as increasingly rigorous environmental laws, regulations and enforcement policies, and claims for damages to property or persons resulting from our operations, could result in substantial costs and liabilities to us.

We are also subject to the requirements of the Occupational Safety & Health Act, or OSHA, and comparable state statutes. We believe that our operations comply in all material respects with OSHA requirements, including general industry standards, record keeping, hazard communication requirements and monitoring of occupational exposure and other regulated substances.

We have not expended and do not anticipate that we will be required in the near future to expend, amounts that are material in relation to our revenues by reason of environmental and safety laws. However, we cannot predict legislative or regulatory developments or the costs of compliance with those developments. In general, however, we anticipate that new laws, regulations or policies will increase our operating costs and impose additional capital expenditure requirements on us.

Tax Treatment of Publicly Traded Partnerships under the Internal Revenue Code

The Internal Revenue Code of 1986, as amended, imposes certain limitations on the current deductibility of losses attributable to investments in publicly traded partnerships and treats certain publicly traded partnerships as corporations for federal income tax purposes. The following discussion briefly describes certain aspects of the Code that apply to individuals who are citizens or residents of the United States without commenting on all of the federal income tax matters affecting us or the holders of our units, and is qualified in its entirety by reference to the Code. UNITHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR ABOUT THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF AN INVESTMENT IN US.

Characterization for Tax Purposes. The Code treats a publicly traded partnership as a corporation for federal income tax purposes unless, for each taxable year, 90% or more of its gross income consists of qualifying income. Qualifying income includes interest, dividends, real property rents, gains from the sale or disposition of real property, income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy and timber), and gain from the sale or disposition of capital assets that produce such income. Because we are engaged primarily in the natural gas pipeline transportation business, we believe that 90% or more of our gross

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income has been qualifying income. If this continues to be true and no subsequent legislation amends that provision, we will continue to be classified as a partnership and not as a corporation for federal income tax purposes.

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Passive Activity Loss Rules. The Code provides that an individual, estate, trust, or personal service corporation generally may not deduct losses from passive activities, to the extent they exceed income from all such passive activities, against other (active) income. Income that may not be offset by passive activity losses includes not only salary and active business income, but also portfolio income such as interest, dividends or royalties or gain from the sale of property that produces portfolio income. Credits from passive activities are also limited to the tax attributable to any income from passive activities. The passive activity loss rules are applied after other applicable limitations on deductions, such as the at-risk rules and basis limitations.

Under the Code, net income from publicly traded partnerships is not treated as passive income for purposes of the passive loss rule, but is treated as non-passive income. Net losses and credits attributable to an interest in a publicly traded partnership may not be used to offset a partner's other income. Thus, a unitholder's proportionate share of our net losses may be used to offset only partnership net income from our trade or business in succeeding taxable years or, upon a complete disposition of a unitholder's interest in us to an unrelated person in a fully taxable transaction, may be used to offset gain recognized upon the disposition, and then against all other income of the unitholder. In effect, net losses are suspended and carried forward indefinitely until utilized to offset net income of the partnership from its trade or business or allowed upon the complete disposition to an unrelated person in a fully taxable transaction of the unitholder's interest in the partnership. A unitholder's share of partnership net income may not be offset by passive activity losses generated by other passive activities. In addition, a unitholder's proportionate share of our portfolio income, including portfolio income arising from the investment of our working capital, is not treated as income from a passive activity and may not be offset by such unitholder's share of net losses of the partnership.

Deductibility of Interest Expense. The Code generally provides that investment interest expense is deductible only to the extent of a non-corporate taxpayer's net investment income. In general, net investment income for purposes of this limitation includes gross income from property held for investment, gain attributable to the disposition of the property held for investment (except for net capital gains for which the taxpayer has elected to be taxed at special capital gains rates) and portfolio income (determined pursuant to the passive loss rules) reduced by certain expenses (other than interest) which are directly connected with the production of such income. Property subject to the passive loss rules is not treated as property held for investment. However, the IRS has issued a Notice which provides that net income from a publicly traded partnership (not otherwise treated as a corporation) may be included in net investment income for purposes of the limitation on the deductibility of investment interest. A unitholder's investment income attributable to its interest in us will include both its allocable share of our portfolio income and trade or business income. A unitholder's investment interest expense will include its allocable share of our interest expense attributable to portfolio investments.

Unrelated Business Taxable Income. Certain entities otherwise exempt from federal income taxes (such as individual retirement accounts, pension plans and charitable organizations) are nevertheless subject to federal income tax on net unrelated business taxable income and each such entity must file a tax

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return for each year in which it has more than \$1,000 of gross income from unrelated business activities. We believe that substantially all of our gross income will be treated as derived from an unrelated trade or business and taxable to such entities. The tax-exempt entity's share of our deductions directly connected with carrying on such unrelated trade or business are allowed in computing the entity's taxable unrelated business income.

State Tax Treatment. During 2003, we owned property or conducted business in the states of Pennsylvania, New York and Ohio. A unitholder is required to file state income tax returns and to pay applicable state income taxes in the states and may be subject to penalties for failure to comply with such requirements. None of these states have required that we withhold a percentage of income attributable to our operations within the state for unitholders who are non-residents of the state. In the event that one or more of them do require withholding in the future, (which may be greater or less than a particular unitholder's income tax liability to the state), such withholding would generally not relieve the non-resident unitholder from the obligation to file a state income tax return.

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Depreciation. Upon our formation in 2000, we elected fifteen-year 150% declining-balance depreciation for tax purposes. Unitholders, however, will continue to offset partnership income with individual unitholder depreciation pursuant to our Section 754 election. Each unitholder's tax situation will differ depending upon the price paid and when units were purchased. Furthermore, sale of units will result in a portion of gain (if any) being taxable as ordinary income through recapture of previous deductions for depreciation.

Employees

As is commonly the case with publicly traded limited partnerships, we do not directly employ any of the persons responsible for our management or operations. In general, employees of Atlas America and its parent company, Resource America, Inc., manage the gathering systems and operate our business. Affiliates of our general partner will conduct business and activities of their own in which we will have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition between us, our general partner and affiliates of our general partner for the time and effort of the officers and employees who provide services to our general partner. The officers of our general partner who provide services to us are not required to work full time on our affairs. These officers may devote significant time to the affairs of our general partner's affiliates and be compensated by these affiliates for the services rendered to them. There may be significant conflicts between us and affiliates of our general partner regarding the availability of these officers to manage us.

Available Information

We make our periodic reports under the Securities Exchange Act of 1934, including our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, available through the website of Resource America, Inc., the parent of our general partner, at www.resourceamerica.com. To view these reports, click on "Investor Relations," then "APL Investor Information," then "SEC Filings." We do not have a separate website. You may also receive a paper copy of any such filings by request to us at 311 Rouser Road, Moon Township, Pennsylvania 15108, tel. no. (412) 262-2830.

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Risk Factors

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. 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 common units could decline and investors may lose some or all of their investment.

Risks Inherent in Our Business

Our cash distributions are not assured and may fluctuate with our performance. The amounts of cash that we generate may not be sufficient to pay the minimum quarterly distributions established in our partnership agreement or any other level of distributions. The actual amounts of cash we generate will depend upon numerous factors relating to our business which may be beyond our control, including:

- o the demand for and price of natural gas;
- o the volume of natural gas we transport;
- o continued development of wells for connection to our gathering systems;
- o the expenses we incur in providing our gathering services;
- o the cost of acquisitions and capital improvements;
- o our issuance of equity securities;
- o required principal and interest payments on our debt;
- o prevailing economic conditions;
- o fuel conservation measures;
- o alternate fuel requirements;
- o government regulations; and
- o technical advances in fuel economy and energy generation devices.

Our ability to make cash distributions depends primarily on our cash flow. Cash distributions do not depend directly on our profitability, which is affected by non-cash items. Therefore, cash distributions may be made during periods when we record losses and may not be made during periods when we record profits.

The failure of Atlas America to perform its obligations under the natural gas gathering agreements may adversely affect our revenues. Our 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. While Atlas America receives gathering fees from the well owners, it is contractually obligated to pay our fees even if the gathering fees paid to it by well owners are less than the fees it must pay us. Our cash flow could be materially adversely affected if Atlas America failed to discharge its obligations to us.

The amount of natural gas we transport will decline over time unless new wells are connected 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. As a consequence, our revenues and, thus, our ability to make distributions to unitholders would be materially adversely affected unless new wells are connected to our gathering systems.

We entered into the omnibus agreement described in "Agreements with Atlas America-Omnibus Agreement" to, among other things, increase the number of natural gas wells connected to our gathering systems. However, well connections resulting from that agreement depend principally upon the success of Atlas America in sponsoring drilling investment partnerships and completing wells for these partnerships in areas where our gathering systems are located. If Atlas America cannot or does not continue to organize these partnerships, if the amount of money raised by these partnerships decreases, or if the number of wells actually drilled and completed as commercial producing wells decreases, our revenues and ability to make cash distributions will be materially adversely affected.

The amount of natural gas we transport may be reduced if the public utility pipelines to which we deliver 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 pipelines to which we deliver natural gas. If one or more of these public utility pipelines has service interruptions, capacity limitations or otherwise does not accept the natural gas we transport, and we cannot arrange for delivery to other public utility 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 revenues.

We will incur substantial indebtedness to acquire Alaska Pipeline which may restrict our liquidity and, if interest rates increase, affect cash flow from the acquisition. We intend to finance the Alaska Pipeline acquisition in part through borrowing all of the \$20.0 million available under our existing credit facility. Unless the borrowing is paid down, or the amount of availability increased, we will not have further borrowing capacity to finance future acquisitions, capital expenditures or other liquidity needs. Moreover, since this borrowing, and the \$50.0 million borrowing that APC Acquisition LLC (the entity we have formed to acquire Alaska Pipeline) will also make to finance the acquisition, are at variable interest rates, any increase in interest rates will adversely affect the cash flow we expect to derive from the acquisition. While we intend to make a public offering of our common units and use the proceeds, in part, to reduce the amount of these borrowings, we may be unable to complete such an offering on acceptable terms, or at all.

Governmental regulation of our pipelines could increase our operating costs. Currently our gathering of natural gas from wells is exempt from regulation under the Natural Gas Act. However, the implementation of new laws or policies could subject us to regulation by the Federal Energy Regulatory Commission under the Natural Gas Act. We expect that any such regulation would increase our costs, decrease our revenues, or both, as discussed under "Regulation."

Gas gathering operations are subject to regulation at the state level. Matters subject to regulation include rates, service and safety. We have been granted an exemption from regulation as a public utility in Ohio. Presently, our rates are not regulated in New York and Pennsylvania. Changes in state regulations, or our status under these regulations that subject us to further regulation, could decrease our revenues, increase our operating costs or require material capital expenditures.

Litigation or governmental regulation relating to environmental protection and operational safety may result in substantial costs and liabilities. Our operations are subject to federal and state environmental laws under which owners of natural gas pipelines can be liable for clean-up costs and fines in connection with any pollution caused by their pipelines. We may also be held liable for clean-up costs resulting from pollution which occurred before our acquisition of the gathering systems. In addition, we are subject to federal and state safety laws that dictate the type of pipeline, quality of pipe protection, depth, methods of welding and other construction-related standards. Any violation of environmental, construction or safety laws could impose substantial liabilities and costs on us.

We are also subject to the requirements of the OSHA, and comparable state statutes. Any violation of OSHA could impose substantial costs on us.

We cannot predict whether or in what form any new legislation or regulatory requirements might be enacted or adopted, nor can we predict our costs of compliance. In general, we expect that new regulations would increase our operating costs and, possibly, require us to obtain additional capital to pay for improvements or other compliance action necessitated by those regulations.

We may not be able to fully execute our growth strategy. Our current strategy contemplates substantial growth through both the acquisition of other gathering systems and the development of our existing system. Typically, we have paid for system development in cash and have made acquisitions either for cash or a combination of cash and common units. As a result, limitations on our access to capital or on the market for our common units will impair our ability to execute our growth strategy. In addition, our strategy of growth through acquisitions involves numerous risks, including:

- o we may not be able to identify suitable acquisition candidates;
- o we may not be able to make acquisitions on economically acceptable terms;
- o our costs in seeking to make acquisitions may be material, even if we cannot complete an acquisition we have pursued;
- o irrespective of estimates at the time we make an acquisition, the acquisition may prove to be dilutive to earnings and operating surplus; and
- o we may encounter difficulties in integrating operations and systems.

If Atlas America and its affiliates default on their obligations to us, we do not have contractual recourse to Resource America. The omnibus agreement and natural gas agreements with Atlas America are material to our business, financial condition and results of operations. Although Atlas America is a subsidiary of Resource America, Resource America has not guaranteed or otherwise assumed responsibility for any of these obligations.

A decline in natural gas prices could adversely affect our revenues. Our gathering fees are generally equal to a percentage of either the gross or weighted average sales price of the natural gas we transport, although in some cases we receive a flat fee per Mcf of gas transported. Our income therefore

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depends upon the prices at which the natural gas we transport is sold. Historically, the price of natural gas has been volatile; as a result, our income may vary widely from period to period.

Gathering system operations are subject to operational hazards and unforeseen interruptions. The operations of our gathering systems are subject to hazards and unforeseen interruptions, including natural disasters, adverse weather, accidents or other events beyond our control. A casualty occurrence might result in injury and extensive property or environmental damage. Our insurance coverage may not be sufficient for any casualty loss we may incur.

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ITEM 2. PROPERTIES

As of December 31, 2003, our principal facilities include approximately 1,380 miles of 2-inch to 12-inch diameter pipeline and 56 compressors, of which four are leased from third parties. Substantially all of our gathering systems are constructed within rights-of-way granted by property owners named in the appropriate land records. In a few cases, property for gathering system purposes was purchased in fee. All of our compressor stations are located on property owned in fee or on property under long-term leases

Our property or rights-of-way are subject to encumbrances, restrictions and other imperfections, although these imperfections have not interfered, and our general partner does not expect that they will materially interfere with the conduct of our business. In many instances, lands over which rights-of-way have been obtained are subject to prior liens which have not been subordinated to the right-of-way grants. In a few instances, our rights-of-way are revocable at the election of the land owners. In some cases, not all of the owners named in the appropriate land records have joined in the right-of-way grants, but in substantially all such cases signatures of the owners of majority interests have been obtained. Substantially all permits have been obtained from public authorities to cross over or under, or to lay facilities in or along, water courses, county roads, municipal streets, and state highways, where necessary, although in some instances these permits are revocable at the election of the grantor. Substantially all permits have also been obtained from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor's election.

Certain of our rights to lay and maintain pipelines are derived from recorded gas well leases, which wells are currently in production; however, the leases are subject to termination if the wells cease to produce. In some of these cases, the right to maintain existing pipelines continues in perpetuity, even if the well associated with the lease ceases to be productive. In addition, because many of these leases affect wells at the end of lines, these rights-of-way will not be used for any other purpose once the related wells cease to produce.

ITEM 3. LEGAL PROCEEDINGS

We are not, nor are any of our gathering systems, subject to any pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the common unitholders during the fourth quarter of the year ended December 31, 2003.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED UNITHOLDER MATTERS

Our common units are listed on the American Stock Exchange under the symbol "APL." As of December 31, 2003, 74 holders of record held our common units. In connection with our initial public offering, we also issued 1,641,026 subordinated units, discussed below, all of which are held by our general partner. There is no established public trading market for the subordinated units.

The following table sets forth the range of high and low sales prices of our common units and distributions per unit on our common and subordinated units for the last two years.

	High -----	Low -----	Distrib Decl -----
Fiscal 2003 -----			
Fourth Quarter.....	\$ 42.50	\$ 34.70	\$
Third Quarter.....	\$ 36.00	\$ 29.40	\$
Second Quarter.....	\$ 31.70	\$ 24.16	\$
First Quarter.....	\$ 28.96	\$ 24.90	\$
Fiscal 2002 -----			
Fourth Quarter.....	\$ 27.90	\$ 21.80	\$
Third Quarter.....	\$ 26.95	\$ 20.40	\$
Second Quarter.....	\$ 29.10	\$ 22.00	\$
First Quarter.....	\$ 29.60	\$ 23.51	\$

Our partnership agreement generally requires us to distribute available cash 98% to the limited partners and 2% to our general partner except for our general partner's incentive distribution rights. These rights require distributions of increased percentages of available cash to the general partner as distributions to limited partners exceed specified minimums, as follows:

Minimum Distributions Per Unit Per Quarter -----	Percent of Available Cash in Excess of Minimum Allocated to the General Partner -----
\$.42	15%
\$.52	25%
\$.60	50%

Available cash generally means for any of our quarters, all cash on hand at the end of the quarter less cash reserves that our general partner determines are appropriate to provide for our operating costs, including potential acquisitions, and to provide funds for distributions to the partners for any one or more of the next four quarters.

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Our partnership agreement allocates distributions to limited partners in accordance with their relative number of units except that, during the subordination period, distributions to subordinated units are subordinated to the receipt by the common units of a minimum quarterly distribution of \$.42 per common unit, plus any unpaid minimum quarterly distribution amounts from prior periods. The subordination period terminates on January 1, 2005 unless we do not meet certain financial criteria established by our partnership agreement.

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We make distributions of available cash to unitholders regardless of whether the amount distributed is less than the minimum quarterly distribution. If distributions from available cash on the common units for any quarter during the subordination period are less than the minimum quarterly distribution of \$.42 per common unit, holders of common units will be entitled to arrearages. Common unit arrearages will accrue and be payable in a future quarter after the minimum quarterly distribution is paid for the quarter. Subordinated units will not accrue any arrearages on distributions for any quarter. Upon expiration of the subordination period, the subordinated units will convert into common units on a one-for-one basis, and will then participate pro rata with the other common units in distributions of our available cash.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read together with our consolidated financial statements, the notes to our consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 in this report. We have derived the selected financial data set forth below for each of the years ended December 31, 2003, 2002 and 2001 and at December 31, 2003 and 2002 from our consolidated financial statements appearing elsewhere in this report, which have been audited by Grant Thornton LLP, independent accountants. The financial data for the period ended December 31, 2000 is for the period beginning with the inception of our operations on January 28, 2000 through December 31, 2000; and, accordingly, we deem January 28, 2000 to be the commencement of our operations and we refer to the period from that date through December 31, 2000 to as the year ended December 31, 2000.

	For the years e	
	2003	2002
	(in thousands, except aver per un	
Income statement data:		
Revenues.....	\$ 15,749 =====	\$ 10,667 =====
Total transportation and compression, general and administrative expenses.....	\$ 4,081 =====	\$ 3,544 =====
Depreciation and amortization.....	\$ 1,770 =====	\$ 1,476 =====
Net income.....	\$ 9,639 =====	\$ 5,398 =====
Average transportation rate per Mcf.....	\$.82	\$.58

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Net income per limited partner unit - basic and diluted.....	\$ 2.17	\$ 1.54
--------------------------------------------------------------	---------	---------

	At Dec	
	2003	2002
(in thousands, except per unit)		
Balance sheet data:		
Total assets.....	\$ 49,512	\$ 28,515
Long-term debt.....	\$ -	\$ 6,500
Common unitholders' capital.....	\$ 43,551	\$ 19,164
Subordinated unitholder's capital.....	354	684
General partner's capital (deficit).....	340	(161)
Total partners' capital.....	\$ 44,245	\$ 19,687
Distributions declared per common unit.....	\$ 2.38	\$ 2.14

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	For the years ended	
	2003	2002
(in thousands, except per unit)		
Other financial data:		
Net cash provided by operating activities.....	\$ 13,702	\$ 8,138
Net cash used in investing activities.....	\$ (9,154)	\$ (5,231)
Net cash provided by (used in) financing activities.....	\$ 8,671	\$ (3,211)

EBITDA means income before net interest expense, income taxes and depreciation and amortization. EBITDA is not intended to represent cash flow and does not represent the measure of cash available for distribution. Our method of computing EBITDA may not be the same method used to compute similar measures reported by other companies, or EBITDA may be computed differently by us in different contexts (i.e., public reporting versus computation under financing agreements).

Certain items excluded from EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and its tax structure, as well as historic costs of

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depreciable assets. We have included information concerning EBITDA because EBITDA provides investors and management with additional information as to our ability to pay our fixed charges and is presented solely as a supplemental financial measure. EBITDA should not be considered as an alternative to, or more meaningful than, net income or cash flow as determined in accordance with generally accepted accounting principles or as an indicator of our operating performance or liquidity. The table below shows our EBITDA and reconciles it to our net income.

	For the years e	
	2003	2002
	(in th	
Income data:		
Net income.....	\$ 9,639	\$ 5,398
Interest expense.....	258	250
Depreciation and amortization.....	1,770	1,476
	-----	-----
EBITDA.....	\$ 11,667	\$ 7,124

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this Form 10-K the words "believes" "anticipates" "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in Item 1 of this report, under the caption "Risk Factors". These risks and uncertainties could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the results of any revisions to forward-looking statements which we may make to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events.

The following information is provided to assist in understanding our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report.

General

Our principal business objective is to generate income for distribution to our unitholders from the transportation of natural gas through our gathering systems. Our gathering systems gather natural gas from wells in eastern Ohio, western New York, and western Pennsylvania and transport the natural gas primarily to public utility pipelines. To a lesser extent, the gathering systems transport natural gas to end-users.

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In May 2003, we completed a public offering of 1,092,500 common units of limited partner interest. The net proceeds after underwriting discounts and commissions were approximately \$25.2 million. These proceeds were used in part to repay existing indebtedness of \$8.5 million. We intend to use the balance of these proceeds to fund future capital projects and for working capital.

In September 2003, we entered into a purchase and sale agreement with SEMCO under which we or our designee will purchase all of the outstanding equity of SEMCO's wholly-owned subsidiary, Alaska Pipeline, L.L.C., which owns a 354-mile intrastate natural gas transmission pipeline that delivers gas to metropolitan Anchorage. The total consideration, payable in cash at closing, will be approximately \$95.0 million, subject to an adjustment based on the amount of working capital that Alaska Pipeline has at closing. Completion of the transaction is subject to a number of conditions, including receipt of governmental and non-governmental consents and approvals and the absence of a material adverse change in Alaska Pipeline's business. Among the required governmental authorizations are approval of the Regulatory Commission of Alaska and expiration, without adverse action, of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. We received an early termination of the Hart-Scott-Rodino waiting period in January 2004. The purchase and sale agreement may be terminated by either SEMCO or us if the transaction is not completed by June 16, 2004.

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Results of Operations

In the years ended December 31, 2003, 2002 and 2001, our principal revenues came from the operation of our pipeline gathering systems which transport and compress natural gas. Two variables which affect our transportation revenues are:

- o the volumes of natural gas transported by us which, in turn, depend upon the number of wells connected to our gathering system, the amount of natural gas they produce, and the demand for that natural gas; and
- o the transportation fees paid to us which, in turn, depend upon the price of the natural gas we transport, which itself is a function of the relevant supply and demand in the mid-Atlantic and northeastern areas of the United States.

We set forth the average volumes we transported, our average transportation rates per Mcf and revenues received by us for the periods indicated in the following table:

	For the year December	
	2003	2002
Average daily throughput volumes, in Mcf.....	52,472	5
Average transportation rate per Mcf.....	\$.82	\$
Total transportation and compression revenues.....	\$ 15,650,800	\$ 10,66

=====

=====

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Our transportation and compression revenues increased to \$15,650,800 in the year ended December 31, 2003 from \$10,660,300 in the year ended December 31, 2002. This increase of \$4,990,500 (47%) resulted from an increase in the average transportation rate paid to us (\$4,361,500) and an increase in the volumes of natural gas we transported (\$629,000).

Our transportation rate was \$.82 per Mcf in the year ended December 31, 2003 as compared to \$.58 per Mcf in the year ended December 31, 2002, an increase of \$.24 per Mcf (41%). During the year ended December 31, 2003, natural gas prices increased significantly over the year ended December 31, 2002. Since our transportation rates are generally at fixed percentages of the sale prices of the natural gas we transport, the higher prices resulted in an increase in our average transportation rate.

Our average daily throughput volumes were 52,472 Mcfs in the year ended December 31, 2003 as compared to 50,363 Mcfs in the year ended December 31, 2002, an increase of 2,109 Mcfs (4%). The increase in the average daily throughput volume resulted principally from volumes associated with new wells added to our pipeline system; we turned on-line 270 and 214 wells in the years ended December 31, 2003 and 2002, respectively. These increases were partially offset by the natural decline in production volumes from existing wells connected to our gathering systems.

Costs and Expenses. Our transportation and compression expenses increased to \$2,420,500 in the year ended December 31, 2003 as compared to \$2,061,600 in the year ended December 31, 2002, an increase of \$358,900 (17%). Our average cost per Mcf of transportation and compression increased to \$.13 in the year ended December 31, 2003 as compared to \$.11 in the year ended December 31, 2002, an increase of \$.02 (18%). This increase resulted primarily from an increase in compressor expenses due to the addition of more compressors and increased lease rates for our compressors. However, during 2003, we have substantially completed the process of purchasing several compressors which we previously leased. We anticipate this will reduce future compressor expenses on a per Mcf basis.

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Our general and administrative expenses increased to \$1,660,900 in the year ended December 31, 2003 as compared to \$1,481,900 in the year ended December 31, 2002, an increase of \$179,000 (12%). This increase primarily resulted from an increase of \$600,000 in allocations of compensation and benefits from Atlas America and its affiliates due to an increase in management time spent during the year on acquisitions, potential acquisitions and our public offering. This increase was largely offset by a decrease in professional fees which, in the prior period, had been higher than normal due to costs associated with the proposed acquisition of Triton Coal Company. We were also reimbursed \$156,100 by Atlas America in the current year for one half of our unreimbursed costs associated with the proposed Triton acquisition.

Our depreciation and amortization expense increased to \$1,770,500 in the year ended December 31, 2003 as compared to \$1,475,600 in the year ended December 31, 2002, an increase of \$294,900 (20%). This increase resulted from our increased asset base associated with pipeline extensions and compressor upgrades and purchases. We anticipate that our depreciation expense will

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increase in 2004 as a result of our pipeline extensions and compressor upgrades.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Our transportation revenue decreased to \$10,660,300 in the year ended December 31, 2002 from \$13,094,700 in the year ended December 31, 2001. This decrease of \$2,434,400 (19%) resulted from a decrease in the average transportation rate paid to us (\$3,163,700), partially offset by an increase in the volumes of natural gas we transported (\$729,300).

Our average daily throughput volumes were 50,363 Mcfs in the year ended December 31, 2002 as compared to 46,918 Mcfs in the year ended December 31, 2001, an increase of 3,445 Mcfs (7%). The increase in the average daily throughput volume resulted principally from volumes associated with new wells added to our pipeline system; we turned on-line 214 and 234 wells in the years ended December 31, 2002 and 2001, respectively. These increases were partially offset by the natural decline in production volumes inherent in the life of a well.

Our average transportation rate was \$.58 per Mcf in the year ended December 31, 2002 as compared to \$.76 per Mcf in the year ended December 31, 2001, a decrease of \$.18 per Mcf (24%). The decrease in our average transportation rate resulted from the decrease in the average natural gas price received by producers for gas transported through our pipeline system.

Costs and Expenses. Our transportation and compression expenses increased to \$2,061,600 in the year ended December 31, 2002 as compared to \$1,929,200 in the year ended December 31, 2001, an increase of \$132,400 (7%), principally due to the increased volumes of natural gas we transported in 2002. Our average cost per Mcf of transportation and compression was \$.11 in both the years ended December 31, 2002 and 2001.

Our general and administrative expenses increased to \$1,481,900 in the year ended December 31, 2002 as compared to \$1,112,800 in the year ended December 31, 2001, an increase of \$369,100 (33%). This increase primarily resulted from professional fees of \$268,500 incurred in connection with the terminated Triton transaction (see Note 10 to our consolidated financial statements) and our cost of insurance (\$92,000) reflecting increased operating activities and assets, as well as significant increases in insurance rates in general.

Our depreciation and amortization expense increased to \$1,475,600 in the year ended December 31, 2002 as compared to \$1,356,100 in the year ended December 31, 2001, an increase of \$119,500 (9%). This increase resulted from the increased asset base associated with pipeline extensions and acquisitions partially offset by a reduction in goodwill amortization as compared to the previous period due to the adoption of Statement of Financial Accounting Standards No. 142 on January 1, 2002.

Our interest expense increased to \$249,800 in the year ended December 31, 2002 as compared to \$175,600 in the year ended December 31, 2001. This increase of \$74,200 (42%) resulted primarily from the write-off of deferred finance fees of \$51,000 relating to our former credit facility with PNC Bank, which we paid off upon obtaining our current credit facility with Wachovia Bank. In addition, we had an increase in the amount of funds borrowed due to an increase in pipeline extensions. These increases were partially offset by lower borrowing rates.

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Liquidity and Capital Resources

Our primary cash requirements, in addition to normal operating expenses, are for debt service, maintenance capital expenditures, expansion capital expenditures and quarterly distributions to our unitholders and general partner. In addition to cash generated from operations, we have the ability to meet our cash requirements, other than distributions to our unitholders and general partner, through borrowings under our credit facility. In general, we expect to fund:

- o cash distributions and maintenance capital expenditures through existing cash and cash flows from operating activities;
- o expansion capital expenditures and working capital deficits through the retention of cash and additional borrowings;
- o debt principal payments through additional borrowings as they become due or by the issuance of additional common units.

In September 2003 we entered into an agreement to purchase Alaska Pipeline, L.L.C., subject to certain conditions, principally the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and the approval of the Regulatory Commission of Alaska. We received an early termination of the Hart-Scott-Rodino waiting period in January 2004. We discuss this transaction and its potential effects on our liquidity and capital resources in "Pending Acquisition."

At December 31, 2003, we had no outstanding borrowings and \$20.0 million of remaining borrowing capacity under our credit facility.

The following table summarizes our financial condition and liquidity at the dates indicated:

	At December 31	
	2003	2002
Current ratio.....	2.9x	1.0x
Working capital (in thousands).....	\$ 9,890	\$ 57
Ratio of long-term debt to total partners' capital.....	N/A	.33x

Net cash provided by operations of \$13,701,900 in the year ended December 31, 2003 increased \$5,563,900 from \$8,138,000 in the year ended December 31, 2002. The increase derived principally from income from operations and changes in our operating assets and liabilities. Net income before depreciation and amortization was \$11,515,200 in the year ended December 31, 2003, an increase of \$4,551,600 from the year ended December 31, 2002. This increase was principally due to the increase in the average transportation rate we received in the year ended December 31, 2003 as compared to the year ended December 31, 2002. During the year ended December 31, 2003, our accounts payable-affiliates increased as a result of advances from Atlas America in connection with expenses associated with the pending acquisition of Alaska Pipeline.

Net cash used in investing activities was \$9,153,600 for the year ended

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December 31, 2003, an increase of \$3,923,000 from \$5,230,600 in the year ended December 31, 2002. The reason for this increase was an increase in expenditures related to gathering system extensions and compressor upgrades to accommodate new wells drilled by Atlas America and its affiliates and expenditures of \$1,519,400 associated with our pending acquisition.

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Net cash provided by financing activities was \$8,671,200 for the year ended December 31, 2003, an increase of \$11,882,200 from cash used in financing activities of \$3,211,000 in the year ended December 31, 2002. The principal reason for the increase was the completion of our public offering in May 2003, which provided net cash of \$17,220,100 after repayment of our outstanding indebtedness and the receipt of a \$538,500 capital contribution from our General Partner. Offsetting this increase was an increase in distributions of \$2,039,600 and cash spent on other assets as a result of financing costs associated with obtaining a new credit facility.

Partnership Distributions

Our partnership agreement requires that we distribute 100% of available cash to our partners within 45 days following the end of each calendar quarter in accordance with their respective percentage interests. Available cash consists generally of all of our cash receipts, less cash disbursements and net additions to reserves, including any reserves required under debt instruments for future principal and interest payments.

Our general partner is granted discretion by our partnership agreement to establish, maintain and adjust reserves for future operating expenses, debt service, maintenance capital expenditures, rate refunds and distributions for the next four quarters. These reserves are not restricted by magnitude, but only by type of future cash requirements with which they can be associated. When our general partner determines our quarterly distributions, it considers current and expected reserve needs along with current and expected cash flows to identify the appropriate sustainable distribution level.

Available cash is initially distributed 98% to our limited partners and 2% to our general partner. These distribution percentages are modified to provide for incentive distributions to be paid to our general partner if quarterly distributions to unitholders exceed specified targets, as described in Item 5 of this report.

Incentive distributions are generally defined as all cash distributions paid to our general partner that are in excess of 2% of the aggregate amount of cash being distributed. The general partner's incentive distribution for year ended December 31, 2003 was \$594,000.

Capital Expenditures

Our property and equipment was approximately 60% and 83% of our total consolidated assets at December 31, 2003 and 2002, respectively. Capital expenditures, other than the acquisitions of gathering systems, were \$7.6 million and \$5.1 million for the years ended December 31, 2003 and 2002, respectively. These capital expenditures principally consisted of costs relating to the expansion of our existing gathering systems to accommodate new wells drilled in our service area and compressor upgrades. During 2003, we connected 270 wells to our gathering system. As of December 31, 2003, we were committed to expend approximately \$1,117,000 in connection with our decision to purchase our compressors rather than lease them and approximately \$810,000 on pipeline

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extensions. In addition, we anticipate capital expenditures of \$5.2 million in 2004 for maintenance and expansion associated with Alaska Pipeline, our pending acquisition. We anticipate that our capital expenditures will increase in 2004 as a result of an increase in the estimated number of well connections to our gathering systems.

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Pending Acquisition

As described in Item 1, "Business," and in Note 9 to our consolidated financial statements, we have agreed to acquire Alaska Pipeline for \$95.0 million. We anticipate incurring approximately \$4.0 million in costs in connection with the transaction. The acquisition is contingent upon the satisfaction of certain conditions, principally approval of the transaction by the Regulatory Commission of Alaska and the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. We received an early termination of the Hart-Scott-Rodino waiting period in January 2004. We intend to fund the acquisition price and expenses as follows:

- o We will borrow all of the \$20.0 million available under our existing credit facility. We will use this amount, plus \$4.0 million of advances from our General Partner, to make a common equity contribution to APC Acquisition, the newly-formed entity that will acquire Alaska Pipeline Company, L.L.C.
- o Friedman, Billings, Ramsey Group, Inc. has committed to make a \$25.0 million preferred equity contribution in APC Acquisition.
- o APC Acquisition has received a commitment for a \$50.0 million credit facility to be administered by Wachovia Bank. It will borrow \$50.0 million under this facility.

We anticipate that we will repay the equity financing from Friedman, Billings, Ramsey Group and some portion of either or both of the Wachovia Bank credit facilities with the proceeds of an offering of common units. We cannot assure you, however, that we will be able to complete the anticipated offering. If we do not, then the equity and debt financings will continue. While the continuation of these financings will reduce our capacity for further borrowing and reduce the amount of cash from operations that would otherwise be available to us from the combination of our operations with those of Alaska Pipeline Company, we believe that our remaining liquidity and capital resources would be sufficient to meet our post-acquisition operational needs.

Inflation and Changes in Prices

Inflation affects the operating expenses of our gathering systems. Increases in those expenses are not necessarily offset by increases in transportation fees that the gathering operations are able to charge. We have not been materially affected by inflation because we were formed relatively recently and have only a limited period of operations. While we anticipate that inflation will affect our future operating costs, we cannot predict the timing or amounts of any such effects. In addition, the value of our gathering systems has been and will continue to be affected by changes in natural gas prices. Natural gas prices are subject to fluctuations which we are unable to control or accurately predict.

Environmental Regulation

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Our operations are subject to federal, state and local laws and regulations governing the release of regulated materials into the environment or otherwise relating to environmental protection or human health or safety. We believe that our operations and facilities are in substantial compliance with applicable environmental laws and regulations. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance or other mandatory or consensual measures. We have an ongoing environmental compliance program. However, risks of accidental leaks or spills are associated with the transportation of natural gas. There can be no assurance that we will not incur significant costs and liabilities relating to claims for damages to property, the environment, natural resources, or persons resulting from the operation of our business. Moreover, it is possible that other developments, such as increasingly strict environmental laws and regulations and enforcement policies thereunder, could result in increased costs and liabilities to us.

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Environmental laws and regulations have changed substantially and rapidly over the last 25 years, and we anticipate that there will be continuing changes. One trend in environmental regulation is to increase reporting obligations and place more restrictions and limitations on activities, such as emissions of pollutants, generation and disposal of wastes and use, storage and handling of chemical substances, that may impact human health, the environment and/or endangered species. Increasingly strict environmental restrictions and limitations have resulted in increased operating costs for us and other similar businesses throughout the United States. It is possible that the costs of compliance with environmental laws and regulations may continue to increase. We will attempt to anticipate future regulatory requirements that might be imposed and to plan accordingly, but there can be no assurance that we will identify and properly anticipate each such charge, or that our efforts will prevent material costs, if any, from arising.

Long-Term Debt

We increased our credit facility to \$20.0 million in September 2003. Our principal purpose in obtaining the increase in the facility was to enable us to fund our pending acquisition of Alaska Pipeline Company and acquisitions of other gas gathering systems. In May 2003 we used proceeds from our public offering to repay our existing indebtedness of \$8.5 million under the facility.

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Contractual Obligations and Commercial Commitments

The following table summarizes our contractual obligations and commercial commitments at December 31, 2003:

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Contractual cash obligations: -----	Total	Payments Due	
		Less than 1 Year	1 - 3 Years
Long-term debt.....	\$ -	\$ -	\$ -
Capital lease obligations.....	-	-	-
Operating leases.....	370,500	171,000	199,500
Unconditional purchase obligations.....	-	-	-
Other long-term obligations.....	-	-	-
Total contractual cash obligations.....	\$ 370,500	\$ 171,000	\$ 199,500
	=====	=====	=====

Other commercial commitments: -----	Total	Amount of Commitment E	
		Less than 1 Year	1 - 3 Years
Lines of credit.....	\$ -	\$ -	\$ -
Standby letter of credit.....	-	-	-
Guarantees.....	-	-	-
Standby replacement commitments.....	-	-	-
Other commercial commitments.....	1,927,000	1,927,000	-
Total commercial commitments.....	\$ 1,927,000	\$ 1,927,000	\$ -
	=====	=====	=====

Other commercial commitments relate to commitments to purchase compressors which we had been leasing and for expenditures for pipeline extensions.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of actual revenues and expenses during the reporting period. Although we believe our estimates are reasonable, actual results could differ from those estimates. Changes in these estimates could materially affect our financial position, results of operations or cash flows. Key estimates used by our management include estimates used to record revenue and expense accruals, depreciation and amortization, asset impairment and fair values of assets acquired. We summarize our significant accounting policies in Note 2 to our Consolidated Financial Statements included in this report. We discuss below the critical accounting policies that we have identified.

Revenue and Expenses

We routinely make accruals for both revenues and expenses due to the timing of receiving information from third parties and reconciling our records

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with those of third parties. We have determined these estimates using available market data and valuation methodologies. We believe our estimates for these items are reasonable, but cannot assure you that actual amounts will not vary from estimated amounts.

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Depreciation and Amortization

We calculate our depreciation based on the estimated useful lives and salvage values of our assets. However, factors such as usage, equipment failure, competition, regulation or environmental matters could cause us to change our estimates, thus impacting the future calculation of depreciation and amortization.

Impairment of Assets

In accordance with Statement of Financial Accounting Standards, or SFAS, 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable. We determine if our long-lived assets are impaired by comparing the carrying amount of an asset or group of assets with the estimated future cash flows associated with such asset or group of assets. If the carrying amount is greater than the estimated future cash flows, an impairment loss is recognized in the amount of the excess, if any.

Our gathering systems are subject to numerous factors which could affect future cash flows which we discuss in Item 1, "Business-Risk Factors". We continuously monitor these factors and pursue alternative strategies to maintain or enhance cash flows associated with these assets; however, we cannot assure you that we can mitigate the effects, if any, on future cash flows related to any changes in these factors.

Goodwill

At December 31, 2003, we had \$2.3 million of goodwill, all of which relates to our acquisition of pipeline assets. We test our goodwill for impairment at each year end by comparing fair values to our carrying values. The evaluation of impairment under SFAS 142, "Goodwill and Other Intangible Assets," requires the use of projections, estimates and assumptions as to the future performance of the operations, including anticipated future revenues, expected future operating costs and the discount factor used. Actual results could differ from projections resulting in revisions to our assumptions and, if required, recognizing an impairment loss. Our test during the current year resulted in no impairment. We will continue to evaluate our goodwill at least annually and will reflect the impairment of goodwill, if any, in operating income in the income statement in the period in which the impairment is indicated.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

All of our assets and liabilities are denominated in U.S. dollars, and

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as a result, we do not have exposure to currency exchange risks.

We do not engage in any interest rate, foreign currency exchange rate or commodity price-hedging transactions, and as a result, we do not have exposure to derivatives risk.

Our major market risk exposure is in the pricing applicable to natural gas sales. Realized pricing is primarily driven by spot market prices for natural gas. Pricing for natural gas production has been volatile and unpredictable for several years.

Market risk inherent in our debt is the potential change arising from increases or decreases in interest rates. Changes in interest rates usually do not affect the fair value of variable rate debt, but may affect our future earnings and cash flows.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Certified Public Accountants

Partners
Atlas Pipeline Partners, L.P.

We have audited the accompanying consolidated balance sheets of Atlas Pipeline Partners, L.P. and subsidiaries (the "Partnership") as of December 31, 2003 and 2002, and the related consolidated statements of income, partners' capital (deficit) and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Partnership at December 31, 2003 and 2002 and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Partnership changed its method of accounting for goodwill for the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ Grant Thornton LLP

Cleveland, Ohio
January 30, 2004

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	----- 2003 -----
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 15,078,
Accounts receivable.....	12,
Prepaid expenses.....	66,

Total current assets.....	15,157,
Property and equipment:	
Gas gathering and transmission facilities.....	37,018,
Less - accumulated depreciation.....	(7,390,

Net property and equipment.....	29,628,
Goodwill (net of accumulated amortization of \$285,300).....	2,304,
Other assets (net of accumulated amortization of \$106,100 and \$0).....	2,422,

	\$ 49,512,
	=====
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)	
Current liabilities:	
Accounts payable and accrued liabilities.....	\$ 520,
Accounts payable - affiliates.....	1,672,
Distribution payable.....	3,073,

Total current liabilities.....	5,267,
Long-term debt.....	

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Partners' capital (deficit):	
Common unitholders, 2,713,659 and 1,621,159 units outstanding.....	43,551,
Subordinated unitholder, 1,641,026 units outstanding.....	354,
General partner.....	339,

Total partners' capital.....	44,245,

	\$ 49,512,
	=====

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	2003	Decem 20
	-----	-----
Revenues:		
Transportation.....	\$ 15,650,800	\$ 10,
Interest income and other.....	97,900	
	-----	-----
Total revenues.....	15,748,700	10,
Costs and expenses:		
Transportation and compression.....	2,420,500	2,
General and administrative.....	1,660,900	1,
Depreciation and amortization.....	1,770,500	1,
Interest.....	258,200	
	-----	-----
Total costs and expenses.....	6,110,100	5,
	-----	-----
Net income.....	\$ 9,638,600	\$ 5,
	=====	=====
Net income - limited partners.....	\$ 8,650,900	\$ 5,
	=====	=====
Net income - general partner.....	\$ 987,700	\$
	=====	=====
Basic and diluted net income per limited partner unit.....	\$ 2.17	\$
	=====	=====
Weighted average limited partner units outstanding.....	3,980,541	3,
	=====	=====

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL (DEFICIT)
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

	Number of Limited Partner Units		
	Common	Subordinated	
Balance at December 31, 2000.....	1,500,000	1,641,026	\$ 18,1
Issuance of common units.....	121,159	-	2,2
Capital contributions.....	-	-	
Distributions paid to partners.....	-	-	(3,1
Distribution payable.....	-	-	(9
Net income.....	-	-	3,8
Balance at December 31, 2001.....	1,621,159	1,641,026	\$ 20,1
Distributions paid to partners.....	-	-	(2,5
Distribution payable.....	-	-	(8
Net income.....	-	-	2,4
Balance at December 31, 2002.....	1,621,159	1,641,026	\$ 19,1
Issuance of common units net of offering costs....	1,092,500	-	25,1
Capital contributions.....	-	-	
Distributions paid to partners.....	-	-	(4,1
Distribution payable.....	-	-	(1,6
Net income.....	-	-	5,0
Balance at December 31, 2003.....	2,713,659	1,641,026	\$ 43,5

	General Partner	Total Partners' Capital (Deficit)
Balance at December 31, 2000.....	\$ (88,900)	\$ 20,107,100
Issuance of common units.....	-	2,250,000
Capital contributions.....	45,500	45,500
Distributions paid to partners.....	(971,500)	(7,235,000)
Distribution payable.....	(157,500)	(2,049,600)
Net income.....	1,056,400	8,555,600
Balance at December 31, 2001.....	\$ (116,000)	\$ 21,673,600
Distributions paid to partners.....	(308,400)	(5,511,500)
Distribution payable.....	(112,200)	(1,873,800)
Net income.....	375,900	5,398,200

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Balance at December 31, 2002.....	\$ (160,700)	\$ 19,686,500
Issuance of common units net of offering costs....	-	25,181,600
Capital contributions.....	538,500	538,500
Distributions paid to partners.....	(674,500)	(7,726,900)
Distribution payable.....	(351,500)	(3,073,200)
Net income.....	987,700	9,638,600
Balance at December 31, 2003.....	\$ 339,500	\$ 44,245,100

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2003	For the year ended December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 9,638,600	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	1,770,500	
Amortization of deferred finance costs.....	106,100	
Change in operating assets and liabilities:		
Decrease in accounts receivable and prepaid expenses.....	447,900	
Increase (decrease) in accounts payable and accrued liabilities.....	413,100	
Increase in accounts payable - affiliates.....	1,325,700	
Net cash provided by operating activities.....	13,701,900	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of gathering systems.....	-	
Increase in other assets.....	(1,519,400)	
Capital expenditures.....	(7,634,200)	
Net cash used in investing activities.....	(9,153,600)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on revolving credit facility.....	2,000,000	
Repayments on revolving credit facility.....	(8,500,000)	
Issuance of common units net of offering costs.....	25,181,600	
Capital contributions.....	538,500	
Distributions paid to partners.....	(9,600,700)	
Increase in other assets.....	(948,200)	

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Net cash provided by (used in) financing activities.....	8,671,200	
Increase (decrease) in cash and cash equivalents.....	13,219,500	
Cash and cash equivalents, beginning of year.....	1,858,600	
Cash and cash equivalents, end of year.....	\$ 15,078,100	\$
Supplemental Cash Flow Information:		
Cash paid during the year for interest.....	\$ 178,000	\$
Non-cash Activities:		
Issuance of units in exchange for gas gathering and transmission facilities:		
Common.....	-	
Subordinated.....	-	
Liability assumed for gas system acquisition.....	-	

See accompanying notes to consolidated financial statements

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

The Partnership

Atlas Pipeline Partners, L.P. (the "Partnership") is a Delaware limited partnership formed in May 1999 to acquire, own and operate natural gas gathering systems theretofore owned by Atlas America, Inc. ("Atlas") and its affiliates, Viking Resources Corporation ("VRC") and Resource Energy, Inc. ("REI") (collectively referred to as the "Predecessor"), all of which are wholly-owned subsidiaries of Resource America, Inc. ("RAI" or "Parent"). RAI is a publicly traded company (trading under the symbol REXI on NASDAQ) operating in energy, real estate, equipment leasing and financial services.

Partnership Structure and Management

The Partnership's operations are conducted through subsidiary entities whose equity interests are owned by the Partnership's operating subsidiary, Atlas Pipeline Operating Partnership, L.P., (the "Operating Partnership"). Atlas Pipeline Partners GP, LLC (a wholly-owned subsidiary of Atlas (the "General Partner")), owns, through its general partner interests in the Partnership and the Operating Partnership, a 2% general partner interest in the consolidated pipeline operations. The remaining 98% consists of limited partner interests of which 62% consists of common units ("Common Units") and 38% consists of subordinated units ("Subordinated Units"). The Subordinated Units are subordinated to the rights of the holders of Common Units. Through the ownership of these Subordinated Units and the General Partner interest, the General Partner effectively manages and controls both the Partnership and the Operating Partnership.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied

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(except as otherwise noted) in the preparation of the accompanying consolidated financial statements follows.

Principles of Consolidation

The consolidated financial statements include the accounts of the Partnership, the Operating Partnership and the Operating Partnership's wholly-owned subsidiaries. The General Partner's interest in the Operating Partnership is reported as part of its overall 2% general partner interest in the Partnership, as opposed to a minority interest. All material intercompany transactions have been eliminated.

Accounting Estimates

Certain amounts included in or affecting the Partnership's consolidated financial statements and related disclosures must be estimated, requiring the Partnership to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared.

The preparation of its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Partnership to make estimates and assumptions that affect:

- o the amount the Partnership reports for assets and liabilities;
- o the Partnership's disclosure of contingent assets and liabilities at the date of the financial statements; and
- o the amounts the Partnership reports for revenues and expenses during the reporting period.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Accounting Estimates - (Continued)

Therefore, the reported amounts of the Partnership's assets and liabilities, revenues and expenses and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. The Partnership evaluates these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods the Partnership considers reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from the Partnership's estimates. Any effects on the Partnership's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Property and Equipment

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets. Gas gathering and transmission facilities are depreciated over 15 or 20 years using the straight-line and double-declining balance methods. Other equipment is depreciated over 5 to 10 years using the straight-line method.

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Impairment of Long-Lived Assets

The Partnership reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an asset's estimated future cash flows will not be sufficient to recover its carrying amount, an impairment charge will be recorded to reduce the carrying amount for that asset to its estimated fair value if such carrying amount exceeds the fair value.

Goodwill

On January 1, 2002, the Partnership adopted SFAS No. 142 ("SFAS 142") "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead tested for impairment at least annually. At that time, the Partnership had unamortized goodwill of \$2.3 million. The transitional impairment test required upon adoption of SFAS 142, which involved the use of estimates related to the fair market value of the business operations associated with the goodwill, did not indicate an impairment loss. The Partnership will continue to evaluate its goodwill at least annually and will reflect the impairment of goodwill, if any, in operating income in the statement of operations in the period in which the impairment is indicated.

Changes in the carrying amount of goodwill for the periods indicated are as follows:

	Years Ended	
	2003	2002
	-----	-----
Goodwill at beginning of period, (less accumulated amortization of \$285,300, \$285,300 and \$197,300).....	\$ 2,304,600	\$2,304,600
Amortization expense.....	-	-
	-----	-----
Goodwill at end of period (net of accumulated amortization of \$285,300 at each year end).....	\$ 2,304,600	\$2,304,600
	=====	=====

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Goodwill - (Continued)

Prior to the adoption of SFAS 142, the Partnership amortized goodwill on a straight-line basis over 30 years. Assuming that the Partnership had applied SFAS 142 in 2001, pro forma net income for that year would have been \$8,643,600, and pro forma net income per limited partner unit for the year ended December 31, 2002 would have been \$2.33.

Distributions

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The Partnership is required to distribute, within 45 days of the end of each quarter, all of its available cash for that quarter. For each quarter during the subordination period (through at least December 31, 2004), to the extent there is sufficient cash available, the Common Unit holders have the right to receive a minimum quarterly distribution ("MQD") of \$.42 per unit prior to any distribution to the subordinated units. If distributions in any quarter exceed specified target levels, the General Partner will receive between 15% and 50% of such distributions in excess of the specified target levels.

Federal Income Taxes

The Partnership is a limited partnership. As a result, the Partnership's income for federal income tax purposes is reportable on the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of the Partnership.

Net income, for financial statement purposes, may differ significantly from taxable income reportable to unitholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under the partnership agreement. These different allocations can and usually will result in significantly different tax capital account balances in comparison to the capital accounts per the consolidated financial statements.

Environmental Matters

The Partnership is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Partnership has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

The Partnership accounts for environmental contingencies in accordance with SFAS 5, "Accounting for Contingencies." Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or clean-ups are probable, and the costs can be reasonably estimated. The Partnership maintains insurance which may cover in whole or in part certain environmental expenditures. For the three years ended December 31, 2003, the Partnership had no environmental matters requiring specific disclosure or requiring recording of a liability.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue Recognition

Revenues are recognized at the time the natural gas is transported through the gathering systems. Under the terms of its natural gas gathering agreements with Atlas and its affiliates, the Partnership receives fees for gathering natural gas from wells owned by Atlas, by drilling investment partnerships sponsored by Atlas or by independent third parties whose wells were

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connected to the Partnership's gathering systems when operations commenced in 2000. The fees received for the gathering services are generally the greater of 16% of the gross sales price for gas produced from the wells, or \$.35 or \$.40 per thousand cubic feet ("Mcf"), depending on the ownership of the well. Substantially all gas gathering revenues are derived under this agreement. Fees for transportation services provided to independent third parties whose wells are connected to the Partnership's gathering systems are at separately negotiated prices.

Segment Information

The Partnership has one business segment, the transportation segment, which derives its revenues primarily from the transportation of natural gas that it receives from producers. Transportation revenues are, for the most part, based on contractual arrangements with Atlas and its affiliates.

Fair Value of Financial Instruments

For cash and cash equivalents, receivables and payables, the carrying amounts approximate fair values because of the short maturity of these instruments. The carrying value of long-term debt approximates fair market value since interest rates approximate current market rates.

Net Income Per Unit

There is no difference between basic and diluted net income per limited partner unit since there are no potentially dilutive units outstanding. Net income per limited partner unit is determined by dividing net income, after deducting the General Partner's 2% interest and incentive distributions, by the weighted average number of outstanding Common Units and Subordinated Units (a total of 3,980,541, 3,262,185 and 3,254,543 units as of December 31, 2003, 2002 and 2001, respectively).

Comprehensive Income

Comprehensive income includes net income and all other changes in the equity of a business during a period from non-owner sources. These changes, other than net income, are referred to as "other comprehensive income." The Partnership has no other elements of comprehensive income, other than net income, to report.

Cash Flow Statements

For purposes of the statements of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Concentration of Credit Risk

Financial instruments, which potentially subject the Partnership to concentrations of credit risk, consist principally of periodic temporary investments of cash. The Partnership places its temporary cash investments in

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high quality short-term money market instruments and deposits with high quality financial institutions. At December 31, 2003, the Partnership and its subsidiaries had \$15.1 million in deposits at one bank, of which \$14.8 million was over the insurance limit of the Federal Deposit Insurance Corporation. No losses have been experienced on such investments.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Partnership is affiliated with RAI and its subsidiaries, including Atlas, VRC and REI ("Affiliates"). The Partnership is dependent upon the resources and services provided by RAI and these Affiliates. Accounts payable-affiliates represents the net balance due to these Affiliates for natural gas transported through the gathering systems, net of reimbursements for Partnership costs and expenses paid by these Affiliates. Substantially all Partnership revenue is from these Affiliates.

The Partnership does not directly employ any persons to manage or operate its business. These functions are provided by the General Partner and employees of RAI and/or its Affiliates. The General Partner does not receive a management fee or other compensation in connection with its management of the Partnership apart from its interest as general partner and its right to receive incentive distributions. The Partnership reimburses Atlas and/or its Affiliates for all direct and indirect costs of services provided, including the cost of employees, officer and managing board member compensation and benefits properly allocable to the Partnership and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, the Partnership.

The partnership agreement provides that the General Partner will determine the costs and expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner at its sole discretion. For the years ended December 31, 2003, 2002 and 2001, such reimbursements were approximately \$11.7 million, \$8.8 million and \$6.2 million, respectively, including certain costs that have been capitalized by the Partnership.

Under an agreement with Atlas, VRC and REI, Atlas must construct up to 2,500 feet of sales lines from its existing wells to a point of connection to the Partnership's gathering systems. The Partnership must, at its own cost, extend its system to connect to any such lines extended to within 1,000 feet of its gathering systems. With respect to wells to be drilled by Atlas that will be more than 3,500 feet from the Partnership's gathering systems, the Partnership has various options to connect those wells to its gathering systems at its own cost.

Atlas has agreed to provide the Partnership with financing for the cost of constructing new gathering system expansions through February 2, 2005, on a stand-by basis. If the Partnership chooses to use this stand-by commitment, the financing will be provided through the issuance of Common Units to Atlas. The number of Common Units issued will be based upon the construction costs advanced and the fair value of the Common Units at the time of such advances. The commitment is for a maximum of \$1.5 million in any contract year. As of December 31, 2003, the Partnership had not availed itself of the stand-by financing.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 3 - RELATED PARTY TRANSACTIONS - (Continued)

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In connection with the acquisition of Alaska Pipeline Company, L.L.C. ("Alaska Pipeline") (see Note 9), the Partnership has the right to purchase the preferred equity interest of Friedman Billings Ramsey Group and, if the Partnership does not do so, Friedman Billings Ramsey Group has the right to require RAI to purchase the interest. The Partnership paid RAI a fee of \$70,750 for this commitment, and will pay RAI an additional fee of \$141,500 upon closing of the Alaska Pipeline transaction. RAI has the right to sell the Partnership any portion of the preferred interest it acquires at its cost plus a purchase premium of 2% or, after the 90th day following closing, an amount equal to 1% per month for each month following RAI's acquisition of the preferred interest. The Partnership's purchase from RAI is payable in Common Units and is subject to receipt of any necessary unitholder approval of the issuance of those units.

NOTE 4 - DISTRIBUTION DECLARED

On December 18, 2003, the Partnership declared a cash distribution of \$.625 per unit on its outstanding Common Units and Subordinated Units. The distribution represented the available cash flow for the three months ended December 31, 2003. The \$3,073,200 distribution, which includes a distribution of \$351,500 to the General Partner in respect to its general partner interest, is scheduled to be paid on February 6, 2004 to unit holders of record on December 31, 2003.

NOTE 5 - CREDIT FACILITY

In September 2003, the Partnership amended and increased its credit facility from \$15.0 million to \$20.0 million. Borrowings under the facility are secured by a lien on and security interest in all the property of the Partnership and its subsidiaries, including pledges by the Partnership of the issued and outstanding equity interests in its subsidiaries. Up to \$3.0 million of the facility may be used for standby letters of credit. No such letters of credit have been issued under the facility. The revolving credit facility has a term ending in December 2005 and bears interest at one of two rates, elected at the Partnership's option:

- o the base rate plus the applicable margin; or
- o the adjusted London Interbank Offered Rate ("LIBOR") rate plus the applicable margin.

The base rate for any day equals the higher of the federal funds rate plus 1/2 of 1% or the Wachovia Bank prime rate. Adjusted LIBOR is LIBOR divided by 1.00 minus the percentage prescribed by the Federal Reserve Board for determining the reserve requirement for euro currency funding. The applicable margin is as follows:

- o where the Partnership's leverage ratio, as defined in the credit facility agreement, is less than or equal to 1.5, the applicable margin is 0.00% for base rate loans and 1.50% for LIBOR loans;
- o where the Partnership's leverage ratio is greater than 1.5 but less than or equal to 2.5, the applicable margin is 0.25% for base rate loans and 1.75% for LIBOR loans;
- o where the Partnership's leverage ratio is greater than 2.5 but less than or equal to 3.0, the applicable margin is 0.50% for base rate loans and 2.00% for LIBOR loans; and
- o where the Partnership's leverage ratio is greater than 3.0, the applicable margin is 0.75% for base rate loans and 2.50% for LIBOR loans.

ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 5 - CREDIT FACILITY - (Continued)

There were no outstanding borrowings under this credit facility at December 31, 2003 and \$6.5 million was outstanding at December 31, 2002.

The credit facility requires the Partnership to maintain specified net worth and specified ratios of current assets to current liabilities and debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), and requires it to maintain a specified interest coverage ratio. At December 31, 2003 and 2002, the Partnership was in compliance with all of the financial covenants.

NOTE 6 - LEASES AND COMMITMENTS

The Partnership leases certain compressors associated with its gathering systems under lease agreements which expire in 2006. Rent expense for the years ended December 31, 2003, 2002 and 2001 was \$1,039,400, \$839,900 and \$783,700, respectively. Minimum future lease payments for these leases in 2004, 2005 and 2006 are \$171,000, \$171,000 and \$28,500, respectively.

NOTE 7 - ACQUISITIONS

In January 2001, the Partnership acquired the gas gathering system of Kingston Oil Corporation. The gas gathering system consists of approximately 100 miles of pipeline located in southeastern Ohio. The purchase price was \$2,750,000, consisting of \$1.3 million of cash and 88,235 common units valued at \$17.00 per unit.

In March 2001, the Partnership acquired the gas gathering system of American Refining and Exploration Company. The gas gathering system consists of approximately 20 miles of pipeline located in Fayette County, Pennsylvania. The purchase price was \$900,000, consisting of \$150,000 of cash and 32,924 common units valued at \$22.78 per unit.

These acquisitions were accounted for under the purchase method of accounting and, accordingly, the purchase prices were allocated to the assets acquired based on their fair values at the dates of acquisition. The pro forma effect of these acquisitions on prior operations to the acquisition dates is not material.

NOTE 8 - PUBLIC OFFERING OF COMMON UNITS

In May 2003, the Partnership completed a public offering of 1,092,500 common units of limited partner interest. The net proceeds after underwriting discounts and commissions were approximately \$25.2 million. These proceeds were used in part to repay existing indebtedness of \$8.5 million. The Partnership intends to use the balance of these proceeds to fund future capital projects and for working capital.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 9 - PENDING ACQUISITION

In September 2003, the Partnership entered into a purchase and sale agreement with SEMCO Energy, Inc. ("SEMCO") pursuant to which the Partnership or its designee will purchase all of the outstanding equity of SEMCO's wholly-owned subsidiary, Alaska Pipeline Company, L.L.C., ("Alaska Pipeline") which owns an intrastate natural gas transmission pipeline that delivers gas to metropolitan Anchorage (the "Acquisition"). The total consideration, payable in cash at closing, will be approximately \$95.0 million, subject to an adjustment based on the amount of working capital that Alaska Pipeline has at closing.

Consummation of the Acquisition is subject to a number of conditions, including receipt of governmental and non-governmental consents and approvals and the absence of a material adverse change in Alaska Pipeline's business. Among the required governmental authorizations are approval of the Regulatory Commission of Alaska and expiration, without adverse action, of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. Early termination of the waiting period was granted in January 2004. The purchase and sale agreement may be terminated by either the Partnership or SEMCO if the transaction is not consummated by June 16, 2004. The purchase and sale agreement contains customary representations, warranties and indemnifications.

As part of the Acquisition, at closing, Alaska Pipeline and ENSTAR Natural Gas Company ("ENSTAR"), a division of SEMCO which conducts its gas distribution business in Alaska, will enter into a Special Contract for Gas Transportation pursuant to which ENSTAR will pay a reservation fee for use of all of the pipeline's transportation capacity of \$943,000 per month, plus \$0.075 per Mcf of gas transported, for 10 years. During 2002, total gas volumes transported on the Alaska Pipeline system averaged 130,000 Mcf per day. SEMCO will execute a gas transmission agreement with Alaska Pipeline pursuant to which SEMCO will be obligated to make up any difference if the Regulatory Commission of Alaska reduces the transportation rates payable by ENSTAR pursuant to the Special Contract.

Further, Alaska Pipeline will enter into an Operation and Maintenance and Administrative Services Agreement with ENSTAR under which ENSTAR will continue to operate and maintain the pipeline for at least five years for a fee of \$334,000 per month for the first three years. Thereafter, ENSTAR's fee will be adjusted for inflation.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 9 - PENDING ACQUISITION - (Continued)

The Partnership has received a commitment from Friedman, Billings, Ramsey Group, Inc. ("FBR") to make a \$25.0 million preferred equity investment in a special purpose vehicle (the "SPV"), to be jointly owned by FBR and the Partnership, which entity will be the acquirer of Alaska Pipeline. Under the terms of the FBR commitment, the Partnership will have the right, during the 18 months following the closing of the Acquisition, to purchase FBR's preferred equity interest in the SPV at FBR's original cost plus accrued and unpaid

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preferred distributions and a premium. If the Partnership does not purchase FBR's interest, FBR has the right to require RAI to purchase this interest. RAI will then have the right to require the Partnership to purchase the equity interest from it. The Partnership intends to make a \$24.0 million common equity investment in the SPV which the Partnership will fund in part through its existing \$20.0 million credit facility. The SPV has received a commitment from Wachovia Bank, National Association and Wachovia Capital Markets, LLC for a \$50.0 million credit facility to partially finance the Acquisition. Up to \$25.0 million of borrowings under the facility will be secured by a lien on and security interest in all of the SPV's property. In addition, upon the earlier to occur of the termination of the Partnership's subordination period or the amendment of the restrictions in the partnership agreement on the Partnership's incurrence of debt, the Partnership will guarantee all borrowings under the facility, securing the guarantee with a pledge of its interest in the SPV.

NOTE 10 - TERMINATION OF PROPOSED ACQUISITION

On July 31, 2002, the Partnership terminated its agreement with New Vulcan Coal Holdings, L.L.C. and Vulcan Intermediary, L.L.C. (collectively, "Vulcan") to acquire Triton Coal Company ("Triton"). The related purchase agreement for the sale of the interests held by Atlas in the General Partner also terminated. The Partnership incurred approximately \$1,500,000 in costs in connection with the Triton transaction. Atlas had advanced these costs to the Partnership.

Vulcan reimbursed the Partnership under the terms of the acquisition agreement for \$1,187,500 of the transaction costs. The Partnership expensed transaction costs of \$156,300, one half of the difference between costs incurred and those reimbursed by Vulcan. Atlas paid the balance of the unreimbursed costs.

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ATLAS PIPELINE PARTNERS, L.P. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 11 - QUARTERLY FINANCIAL DATA (Unaudited)

	March 31 -----	June 30 -----	Sep ---
	(in thousands, except pe		
Year ended December 31, 2003			
Revenues.....	\$ 3,330	\$ 4,348	\$
Costs and expenses.....	1,418	1,662	
Net income.....	1,912	2,686	
Net income - limited partners.....	1,780	2,479	
Net income - general partner.....	132	207	
Basic and diluted net income per limited partner unit..	.55	.63	
Weighted average units outstanding.....	3,262,185	3,934,493	4
Year ended December 31, 2002:			
Revenues.....	\$ 2,577	\$ 2,618	\$
Costs and expenses.....	1,205	1,382	

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Net income.....	1,372	1,236
Net income - limited partners.....	1,292	1,143
Net income - general partner.....	80	93
Basic and diluted net income per limited partner unit..	.40	.35
Weighted average units outstanding.....	3,262,185	3,262,185

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The chairman and chief financial officer of our general partner, our principal executive officer and financial officer, respectively, have evaluated our disclosure controls and procedures, (as defined in Rules 13a-14 (c) and 15d-14(c)) within 90 days prior to the filing of this report. Based upon this evaluation, these officers believe that our disclosure controls and procedures are effective.

Changes in Internal Controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the last evaluation of our internal controls by the chairman and chief financial officer of our general partner.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

Our general partner manages our activities. Unitholders do not directly or indirectly participate in our management or operation or have actual or apparent authority to enter into contracts on our behalf or to otherwise bind us. Our general partner will be liable, as general partner, for all of our debts to the extent not paid, except to the extent that indebtedness or other obligations incurred by us are specifically with recourse only to our assets. Whenever possible, our general partner intends to make any of our indebtedness or other obligations with recourse only to our assets.

Three members of the managing board of our general partner who are neither officers nor employees of our general partner nor directors, managing

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board members, officers or employees of any affiliate of our general partner (and have not been for the past five years) serve on the conflicts committee. Messrs. William Bagnell, Donald Delson and Murray Levin currently serve as the conflicts committee of the managing board. The conflicts committee has the authority to review specific matters as to which the managing board believes there may be a conflict of interest in order to determine if the resolution of the conflict proposed by our general partner is fair and reasonable to us. Any matters approved by the conflicts committee are conclusively judged to be fair and reasonable to us, approved by all our partners and not a breach by our general partner or its managing board of any duties they may owe us or the unitholders. In addition, the members of the conflicts committee also constitute an audit committee which reviews the external financial reporting by our management, the audit by our independent public accountants, the procedures for internal auditing and the adequacy of our internal accounting controls. Mr. Delson has been designated as the audit committee financial expert by the "board of managers of the general partner, who determined that he is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act.

As is commonly the case with publicly traded limited partnerships, we do not directly employ any of the persons responsible for our management or operation. Rather, Atlas America personnel manage and operate our business. Officers of our general partner may spend a substantial amount of time managing the business and affairs of Atlas America and its affiliates and may face a conflict regarding the allocation of their time between our business and affairs and their other business interests.

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Managing Board Members and Executive Officers of Our General Partner

The following table sets forth information with respect to the executive officers and managing board members of our general partner.

Name	Age	Position with general partner	Year in which service began
----	---	-----	-----
Edward E. Cohen	65	Chairman of the Managing Board	1999
Jonathan Z. Cohen	32	Vice Chairman of the Managing Board	1999
Michael L. Staines	54	President, Chief Operating Officer and Managing Board Member	1999
Steven J. Kessler	60	Chief Financial Officer	2002
Tony C. Banks	48	Managing Board Member	1999
William R. Bagnell	40	Managing Board Member	1999
Donald W. Delson	52	Managing Board Member	2003
Murray S. Levin	61	Managing Board Member	2001

Edward E. Cohen has been Chairman of the Board of Directors of Resource America since 1990, Chief Executive Officer and a director of Resource America since 1988 and President of Resource America from 2000 to 2003. He has been Chairman of the Board of Directors of Atlas America since 1998. He is Chairman of the Board of Directors of Brandywine Construction & Management, Inc., a property management company, and a director of TRM Corporation, a publicly

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traded consumer services company. Mr. Cohen is the father of Jonathan Z. Cohen.

Jonathan Z. Cohen has been the President of Resource America since October 2003, and its Chief Operating Officer and a director since 2002. He was the Executive Vice President of Resource America from 2001 until 2003. Before that, Mr. Cohen had been a Senior Vice President since 1999. Mr. Cohen has been Vice Chairman of Atlas America since 1998. Mr. Cohen has also served as Trustee and Secretary of RAIT Investment Trust, a publicly-traded real estate investment trust, since 1997, Vice Chairman of RAIT since 2003 and Chairman of the Board of Directors of The Richardson Company, a sales consulting company, since 1999. Mr. Cohen is the son of Edward E. Cohen.

Michael L. Staines has been Senior Vice President of Resource America since 1989 and served as a director from 1989 through 2000 and Secretary from 1989 through 1998. Since 1998, Mr. Staines has been Executive Vice President, Secretary and a director of Atlas America. Mr. Staines is a member of the Ohio Oil and Gas Association, the Independent Oil and Gas Association of New York and the Independent Petroleum Association of America.

Steven J. Kessler has been Senior Vice President and Chief Financial Officer of Resource America since 1997. Before that he was Vice President, Finance and Acquisitions, at Kravco Company, a national shopping center developer and operator.

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Tony C. Banks is a consultant to utilities, energy service companies and energy technology firms. From 2000 through early 2002, Mr. Banks was President of RAI Ventures, Inc. and Chairman of the Board of Optiron Corporation, which was an energy technology subsidiary of Atlas America until 2002. In addition, Mr. Banks served as President of our general partner during 2000. He was Chief Executive Officer and President of Atlas America from 1998 through 2000. From 1995 to 1998, Mr. Banks was Vice President of various subsidiaries of Atlas America.

William R. Bagnell has been Vice President-Energy for Planalytics, Inc., an energy industry software company, since 2000. Before that, he was from 1998 the Director of Sales for Fisher Tank Company, a national manufacturer of carbon and stainless steel bulk storage tanks. From 1992 through 1998, Mr. Bagnell was a Manager of Business Development for Buckeye Pipeline Partners, L.P., a publicly traded master limited partnership which is a transporter of refined petroleum products.

Donald W. Delson has been a managing director in corporate finance at Keefe, Bruyette & Woods, Inc. since 1997. Before that, he was a managing director at Alex Brown & Sons.

Murray S. Levin is a senior litigation partner at Pepper Hamilton LLP. Mr. Levin served as the first American President of the Association Internationale des Jeunes Avocats (Young Lawyers International Association), headquartered in Western Europe. He is a past president of the American Chapter and a member of the board of directors of the Union Internationale des Avocats (International Association of Lawyers), a Paris-based organization that is the world's oldest international lawyers association.

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Other Significant Employees

Nancy J. McGurk, 48, has been the Chief Accounting Officer of our general partner since 1999. Ms. McGurk has been Vice President of Resource America since 1992 and Treasurer and Chief Accounting Officer since 1989.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and managing board members of our general partner and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish us with copies of all such reports. Based solely upon our review of reports received by us, or representations that no filings were required, we believe that all of the officers and managing board members of our general partner complied with all applicable filing requirements during 2003. We did not have any record holders of 10% or more of our common units in 2003.

Reimbursement of Expenses of Our General Partner and Its Affiliates

Our general partner does not receive any management fee or other compensation for its services apart from its general partnership and incentive distribution interests. We reimburse our general partner and its affiliates, including Atlas, for all expenses incurred on our behalf. These expenses include the costs of employee, officer and managing board member compensation and benefits properly allocable to us, and all other expenses necessary or appropriate to the conduct of our business. Our partnership agreement provides that our general partner will determine the expenses that are allocable to us in any reasonable manner determined by our general partner in its sole discretion. Our general partner allocates the costs of employee and officer compensation and benefits based upon the amount of business time spent by those employees and officers on our business. We reimbursed our general partner \$11.7 million for expenses incurred and capitalized costs during 2003.

Compensation Committee Interlocks and Insider Participation

Neither we nor the managing board of our general partner has a compensation committee. Compensation of the personnel of Resource America and its affiliates who provide us with services is set by Resource America and such affiliates. The independent members of the managing board of our general partner, however, do review the allocation of the salaries of such personnel for purposes of reimbursement, discussed in "Reimbursement of Expenses of our General Partner and Its Affiliates, above and in Item 11, "Executive Compensation." None of the independent managing board members is an employee or former employee of ours or of our general partner. However, Mr. Bagnell was, until September 1992, an employee of Resource America, the ultimate parent of our general partner and served from December 1998 until February 2003 as a trustee of its employee stock ownership plan and from September 1999 until February 2003 as a trustee of its 401(k) plan. No executive officer of our general partner is a director or executive officer of any entity in which an independent managing board member is a director or executive officer.

Code of Business Conduct and Ethics

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Because we do not directly employ any persons, we rely on a Code of Business Conduct and Ethics adopted by Resource America that applies to the principal executive officer, principal financial officer and principal accounting officer of our general partner, as well as to persons performing services for us generally. You may obtain a copy of this code of ethics by a request to our general partner at 311 Rouser Road, Moon Township, Pennsylvania 15108. We will disclose any amendment to, or waiver from, a provision of our code of ethics by filing a current report on Form 8-K.

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ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

We do not directly compensate the executive officers of our general partner. Rather, Resource America and its affiliates allocate the compensation of the executive officers between activities on behalf of our general partner and us and activities on behalf of itself and its affiliates based upon an estimate of the time spent by such persons on activities for us and for Resource America and its affiliates. We reimburse our general partner for the compensation allocated to us. The compensation allocation was \$1,035,000, \$438,000 and \$431,500 for the years ended December 31, 2003, 2002 and 2001, respectively. The following table sets forth the compensation allocation for the last three fiscal years for our general partner's Chief Executive Officer and President. No other executive officer of the general partner received an allocation of aggregate salary and bonus in excess of \$100,000 during the periods indicated.

Summary Compensation Table

Name and principal position	Year	Salary
Edward E. Cohen, Chairman of the Managing Board and Chief Executive Officer	2003	\$ 179,600
	2002	0
	2001	0
Michael L. Staines, President, Chief Operating Officer and Managing Board Member	2003	\$ 133,300
	2002	169,979
	2001	193,500

Compensation of Managing Board Members

Our general partner does not pay additional remuneration to officers or employees of Resource America who also serve as managing board members. In fiscal year 2003, each non-employee managing board member received an annual retainer of \$6,000 together with \$1,000 for each board meeting attended, \$1,000

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for each committee meeting attended where he is chairman of the committee and \$500 for each committee meeting attended where he is not chairman. Effective January 1, 2004, each non-employee managing board member will receive an annual retainer of \$20,000 in cash and an annual grant of phantom units (1) with DER's (2) in an amount equal to the lesser of 500 units or \$15,000 worth of units (based upon the market price of our common units) pursuant to our Long-term Incentive Plan, which was approved by our unitholders on February 11, 2004. In addition, our general partner reimburses each non-employee board member for out-of-pocket expenses in connection with attending meetings of the board or committees. We reimburse our general partner for these expenses and indemnify our general partner's managing board members for actions associated with being managing board members to the extent permitted under Delaware law.

-
- (1) A phantom unit is one which, upon vesting, entitles the holder to receive a common unit or its then fair market value in cash, as specified in the grant.
- (2) A right, granted in tandem with a specific phantom unit, to receive an amount in cash equal to, and at the same time as, the cash distributions made by us on our outstanding common units.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number and percentage of our common units held by beneficial owners of 5% or more of either our common or subordinated units, by executive officers and members of the managing board of our general partner and by all of the executive officers and managing board members of our general partner as a group as of February 10, 2004. The subordinated units listed opposite the name of each person represent subordinated units owned by our general partner. By reason of their position as managing board members or executive officers of our general partner, such persons may be deemed to have shared voting and investment power over the subordinated units. The address of our general partner, its executive officers and managing board members is 311 Rouser Road, Moon Township, Pennsylvania 15108.

Name of Beneficial Owner -----	Common Units -----	Percent of Class -----	Subordinated -----
Atlas Pipeline Partners GP.....	-	-	1,641,0
Edward E. Cohen.....	-	-	1,641,0
Steven J. Kessler.....	-	-	1,641,0
Jonathan Z. Cohen.....	1,277	*	1,641,0
Michael L. Staines.....	-	-	1,641,0
William R. Bagnell.....	-	-	1,641,0
Donald W. Delson.....	-	-	1,641,0
Tony C. Banks.....	-	-	1,641,0
Murray S. Levin.....	-	-	1,641,0
Executive officers and managing board members as a group (8 persons).....	1,277	*	1,641,0

* Less than 1%.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

At December 31, 2003, our general partner owned 1,641,026 subordinated units constituting 38% of the limited partner interest in us. Our general partner also owned, through its 1.0101% general partnership interest in us and 1.0101% general partnership interest in our operating subsidiary, Atlas Pipeline Operating Partnership, a 2% general partner interest in our consolidated pipeline operations. We paid our general partner distributions totaling \$4,561,100 during fiscal 2003 in respect of these interests.

The omnibus agreement and the natural gas gathering agreements, which we describe in Item 1, "Business Agreements with Atlas America," with Atlas America and its affiliates were not the result of arms-length negotiations and, accordingly, we cannot assure you that we could have obtained more favorable terms from independent third parties similarly situated. However, since these agreements principally involve the imposition of obligations on Atlas America and its affiliates, we do not believe that we could obtain similar agreements from independent third parties.

In connection with the acquisition of Alaska Pipeline described in Item 1, "Business - General," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Pending Acquisition," we have the right to purchase the preferred equity interest of Friedman Billings Ramsey Group in APC Acquisition, the entity we formed to acquire Alaska Pipeline. If we do not do so, Friedman Billings Ramsey Group has the right to require Resource America, the parent of our general partner, to purchase the interest. We paid Resource America a fee of \$70,750 for this commitment, and will pay it an additional fee of \$141,500 upon closing of the Alaska Pipeline transaction. Resource America has the right to sell us any portion of the preferred interest it acquires at its cost plus a purchase premium of 2% or, after the 90th day following closing, an amount equal to 1% per month for each month following Resource America's acquisition of the preferred interest. Our purchase from Resource America is payable in common units and is subject to receipt of any necessary unitholder approval of the issuance.

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We do not currently directly employ any persons to manage or operate our business. These functions are provided by employees of Resource America and/or its affiliates. As discussed in Items 10 and 11, we reimburse our general partner, Atlas America and its affiliates for expenses they incur in managing our operations and for an allocation of the compensation paid to the executive officers of our general partner.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees recognized by the Partnership during the years ending December 31, 2003 and 2002 by its principal accounting firm, Grant Thornton, LLP are set forth below. The audit committee of the managing board of our general partner has considered whether the provision of the non-audit services described below is compatible with maintaining the principal accountant's independence.

	2003	2002
	-----	-----
Audit fees (1).....	\$ 89,100	\$ 80,400
Audit related fees (2).....	--	--
Tax fees (3).....	47,000	185,700
All other fees (4).....	237,600	84,500

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Total aggregate fees billed.....	\$ 373,700	\$ 350,600
	=====	=====

- (1) Includes the aggregate fees recognized in each of the last two years for professional services rendered by Grant Thornton, LLP for the audit of the Partnership's annual financial statements and the review of financial statements included in Form 10-Q. The fees are for services that are normally provided by Grant Thornton, LLP in connection with statutory or regulatory filings or engagements.
- (2) There were no aggregate fees billed in each of the last two years for assurance and related services by Grant Thornton, LLP that are reasonably related to the performance of the audit or review of the Partnership's financial statements.
- (3) Includes the aggregate fees recognized in each of the last two years for professional services rendered by Grant Thornton, LLP for tax compliance, tax advice, and tax planning.
- (4) Includes the aggregate fees recognized in each of the last two years for products and services provided by Grant Thornton, LLP, other than those services described above. Services in this category include due diligence related to an acquisition.

Procedures For Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Pursuant to its charter, the Audit Committee of the managing board of our general partner is responsible for reviewing and approving, in advance, any audit and any permissible non-audit engagement or relationship between us and our independent auditors.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) (1) Financial Statements
The financial statements required by this Item 15(a) (1) are set forth in Item 8.
- (a) (2) Financial Statement Schedules No schedules are required to be presented.
- (a) (3) Exhibits

Exhibit No.	Description
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2.1(1)	Purchase and Sale Agreement dated September 16, 2003 between Atlas Pipeline Partners, L.P. and SEMCO Energy, Inc.(1)
3.1(2)	Amended and Restated Agreement of Limited Partnership of Atlas Pipeline Partners, L.P.(2)
3.2(2)	Certificate of Limited Partnership of Atlas

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	Pipeline Partners, L.P.(2)
4.1(2)	Common unit certificate.(2)
10.1	Third Amendment to Credit Agreement among Atlas Pipeline Partners, L.P., Wachovia Bank, National Association and certain subsidiaries of Atlas Pipeline Partners, L.P. as guarantors dated September 15, 2003.
21.1	Subsidiaries of Atlas Pipeline Partners, L.P.
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 Certification
32.2	Section 1350 Certification

(b) Reports on Form 8-K

None

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- (1) Filed previously as an exhibit to our current report on Form 8-K dated September 16, 2003 and by this reference incorporated herein.
 - (2) Filed previously as an exhibit to our Registration Statement on Form S-1 (Registration No. 333-85193) and by this reference incorporated herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 1, 2004

ATLAS PIPELINE PARTNERS, L.P.
By: Atlas Pipeline Partners GP, LLC,
its General Partner
By: /s/ Edward E. Cohen

Chairman of the Managing Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 1, 2004.

/s/ Edward E. Cohen

EDWARD E. COHEN

Chairman of the Managing Board of the General Partner (Chief Executive Officer of the General Partner)

/s/ Jonathan Z. Cohen

JONATHAN Z. COHEN

Vice Chairman of the Managing Board of the General Partner

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/s/ Michael L. Staines President, Chief Operating Officer, Secretary

MICHAEL L. STAINES and Managing Board Member of the General Partner

/s/ Steven J. Kessler Chief Financial Officer of the General Partner

STEVEN J. KESSLER

/s/ Nancy J. McGurk Chief Accounting Officer of the General Partner

NANCY J. MCGURK

/s/ Tony C. Banks Managing Board Member of the General Partner

TONY C. BANKS

/s/ William R. Bagnell Managing Board Member of the General Partner

WILLIAM R. BAGNELL

/s/ Donald W. Delson. Managing Board Member of the General Partner

Donald W. Delson

/s/ Murray S. Levin Managing Board Member of the General Partner

MURRAY S. LEVIN