

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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: 1-35365

ROSE ROCK MIDSTREAM, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2934823
(IRS Employer
Identification Number)

**Two Warren Place
6120 S. Yale Avenue, Suite 700
Tulsa, OK 74136-4216**
(Address of principal executive offices and zip code)

(918) 524-7700
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): **Yes** **No**

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

At July 31, 2014, there were 20,574,448 common units, 8,389,709 subordinated units and 3,750,000 Class A units outstanding.

Rose Rock Midstream, L.P.

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Cautionary Note Regarding Forward-Looking Statements

Certain matters contained in this Form 10-Q include “forward-looking statements”. All statements, other than statements of historical fact, included in this Form 10-Q regarding the prospects of our industry, our anticipated financial performance, management's plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions, and other matters, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as “may,” “expect,” “intend,” “estimate,” “foresee,” “project,” “anticipate,” “believe,” “plans,” “forecasts,” “continue” or “could” or the negative of these terms or variations of them or similar terms. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause actual results to differ include, but are not limited to, those discussed in Item 1A of our most recent Annual Report on Form 10-K, entitled “Risk Factors,” risk factors discussed in other reports that we file with the Securities and Exchange Commission (the “SEC”) and the following:

- Insufficient cash from operations following the establishment of cash reserves and payment of fees and expenses to pay the minimum quarterly distribution;
- Any sustained reduction in demand for or supply of crude oil in markets served by our midstream assets;
- Our ability to obtain new sources of supply of crude oil;
- The amount of collateral required to be posted from time to time in our transactions;
- Competition from other midstream energy companies;
- Our ability to comply with the covenants contained in our credit facility and the indenture governing our 5.625% senior notes, including requirements under our credit facility to maintain certain financial ratios;
- Our ability to access the debt and equity markets, which will depend on general market conditions and the credit ratings for our debt obligations and equity;
- Our ability to renew or replace expiring storage contracts;
- The loss of, or a material nonpayment or nonperformance by, any of our key customers;
- The overall forward market for crude oil;
- The possibility that our hedging activities may result in losses or may have a negative impact on our financial results;
- Weather and other natural phenomena;
- Hazards or operating risks incidental to the gathering, transporting or storing of crude oil;
- Changes in laws and regulations and our failure to comply with new or existing laws or regulations, particularly with regard to taxes, safety and protection of the environment;
- The possibility that the construction or acquisition of new assets may not result in the corresponding anticipated revenue increases; and
- General economic, market and business conditions.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this Form 10-Q, which reflect management’s opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements.

Investors and others should note that we announce material company information using our investor relations website (www.rrmidstream.com), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our investors and the public about our company, our businesses and our results of operations. The information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media and others interested in our company to review the information we post on the social media channels listed on our investor relations website.

As used in this Form 10-Q, and unless the context indicates otherwise, the term(s) (i) the “Partnership,” “Rose Rock,” “we,” “our,” “us” or like terms, refer to Rose Rock Midstream, L.P., its subsidiaries and its predecessor; (ii) “SemGroup” refers to SemGroup Corporation (NYSE: SEMG), and its subsidiaries and affiliates, other than our general partner and us; (iii) “Rose Rock GP” or our “general partner” refer to Rose Rock Midstream GP, LLC; and (iv) “unitholders” refer to our common and subordinated unitholders, and not our general partner.

PART 1. FINANCIAL INFORMATION**Item 1. Financial Statements****ROSE ROCK MIDSTREAM, L.P.
Condensed Consolidated Balance Sheets
(In thousands, except unit amounts)**

	(Unaudited) June 30, 2014	December 31, 2013
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,353	\$ 15,459
Accounts receivable	219,175	217,213
Proceeds receivable from senior note issuance	391,915	—
Receivable from affiliates	26,775	56,220
Inventories	27,911	30,779
Other current assets	3,236	1,916
Total current assets	<u>672,365</u>	<u>321,587</u>
Property, plant and equipment (net of accumulated depreciation of \$63,362 and \$56,533 at June 30, 2014 and December 31, 2013, respectively)	336,377	311,616
Equity method investment	271,187	224,095
Goodwill	46,059	28,322
Other intangible assets (net of accumulated amortization of \$2,879 and \$1,155 at June 30, 2014 and December 31, 2013, respectively)	8,460	5,775
Other noncurrent assets, net	14,089	5,852
Total assets	<u>\$ 1,348,537</u>	<u>\$ 897,247</u>
<u>LIABILITIES AND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 204,892	\$ 211,298
Payable to affiliates	29,825	69,274
Accrued liabilities	7,951	8,645
Other current liabilities	5,009	3,814
Total current liabilities	<u>247,677</u>	<u>293,031</u>
Long-term debt	847,568	245,088
Commitments and contingencies (Note 6)		
Partners' capital:		
Common units – public (13,759,739 units issued and outstanding at June 30, 2014 and December 31, 2013)	73,176	159,961
Common units – SemGroup (6,814,709 and 4,389,709 units issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	157,203	79,218
Subordinated units – SemGroup (8,389,709 units issued and outstanding at June 30, 2014 and December 31, 2013)	(58,500)	(5,375)
Class A units - SemGroup (3,750,000 and 2,500,000 units issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	75,327	40,772
General partner	6,086	5,995
Total Rose Rock Midstream, L.P. partners' capital	<u>253,292</u>	<u>280,571</u>
Noncontrolling interests in consolidated subsidiary	—	78,557
Total equity	<u>253,292</u>	<u>359,128</u>
Total liabilities and equity	<u>\$ 1,348,537</u>	<u>\$ 897,247</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ROSE ROCK MIDSTREAM, L.P.
Unaudited Condensed Consolidated Statements of Income
(In thousands, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues, including revenues from affiliates (Note 9):				
Product	\$ 267,087	\$ 148,816	\$ 533,377	\$ 307,544
Service	23,345	12,606	47,978	25,110
Total revenues	290,432	161,422	581,355	332,654
Expenses, including expenses from affiliates (Note 9):				
Costs of products sold, exclusive of depreciation and amortization	255,745	140,506	510,282	288,957
Operating	17,006	5,807	31,884	11,225
General and administrative	6,001	3,254	9,624	6,815
Depreciation and amortization	6,267	3,690	16,801	7,197
Total expenses	285,019	153,257	568,591	314,194
Earnings from equity method investment	12,291	3,451	23,371	6,904
Operating income	17,704	11,616	36,135	25,364
Other expenses, net:				
Interest expense	2,595	2,494	4,867	4,248
Other income	(21)	(12)	(21)	(12)
Total other expenses, net	2,574	2,482	4,846	4,236
Net income	15,130	9,134	31,289	21,128
Less: net income attributable to noncontrolling interests	4,082	—	7,758	—
Net income attributable to Rose Rock Midstream, L.P.	\$ 11,048	\$ 9,134	\$ 23,531	\$ 21,128
Net income allocated to general partner	\$ 1,109	\$ 255	\$ 1,847	\$ 535
Net income allocated to common unitholders	\$ 7,513	\$ 5,208	\$ 15,619	\$ 11,975
Net income allocated to subordinated unitholders	\$ 3,063	\$ 3,674	\$ 6,860	\$ 8,447
Net income (loss) allocated to Class A unitholders	\$ (637)	\$ (3)	\$ (795)	\$ 171
Earnings (loss) per limited partner unit (Note 8):				
Common unit (basic)	\$ 0.41	\$ 0.44	\$ 0.86	\$ 1.02
Common unit (diluted)	\$ 0.41	\$ 0.44	\$ 0.85	\$ 1.02
Subordinated unit (basic and diluted)	\$ 0.37	\$ 0.44	\$ 0.82	\$ 1.01
Class A unit (basic and diluted)	\$ (0.25)	\$ 0.00	\$ (0.31)	\$ 0.15
Basic weighted average number of limited partner units outstanding:				
Common units	18,336	11,894	18,243	11,680
Subordinated units	8,390	8,390	8,390	8,390
Class A units	2,596	1,250	2,548	1,174
Diluted weighted average number of limited partner units outstanding:				
Common units	18,397	11,933	18,297	11,710
Subordinated units	8,390	8,390	8,390	8,390
Class A units	2,596	1,250	2,548	1,174

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ROSE ROCK MIDSTREAM, L.P.
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 31,289	\$ 21,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,801	7,197
Gain on disposal of long-lived assets, net	(61)	—
Amortization of debt issuance costs	520	399
Non-cash equity compensation	390	355
Net unrealized gain related to derivative instruments	(245)	(1,295)
Changes in assets and liabilities, net of the effects of acquisitions:		
Decrease (increase) in accounts receivable	(1,962)	71
Decrease (increase) in receivable from affiliates	29,445	(30)
Decrease (increase) in inventories	(3,526)	2,644
Decrease (increase) in other current assets	(1,135)	434
Decrease (increase) in other noncurrent assets	6	(1)
Increase (decrease) in accounts payable and accrued liabilities	(8,016)	(8,205)
Increase (decrease) in payable to affiliates	(39,449)	612
Net cash provided by operating activities	<u>24,057</u>	<u>23,309</u>
Cash flows from investing activities:		
Capital expenditures	(12,392)	(11,370)
Proceeds from sale of long-lived assets	710	—
Contributions to equity method investment	(51,774)	(66,193)
Acquisitions	(133,993)	—
Distributions from equity investment in excess of equity in earnings	4,681	156
Net cash used in investing activities	<u>(192,768)</u>	<u>(77,407)</u>
Cash flows from financing activities:		
Debt issuance costs	(62)	(1,611)
Borrowings on revolving credit facility	296,000	251,000
Principal payments on revolving credit facility	(93,500)	(89,000)
Principal payments on capital lease obligations	(18)	(12)
Proceeds from common L.P. unit issuance, net of offering costs	—	57,751
Cash consideration in excess of historical cost of interest in SemCrude Pipeline, L.L.C.	(24,413)	(143,216)
Cash distributions to partners	(26,744)	(17,272)
Cash distributions to noncontrolling interests	(9,025)	—
Contributions from noncontrolling interests	14,367	—
Net cash provided by financing activities	<u>156,605</u>	<u>57,640</u>
Net increase (decrease) in cash and cash equivalents	(12,106)	3,542
Cash and cash equivalents at beginning of period	15,459	108
Cash and cash equivalents at end of period	<u>\$ 3,353</u>	<u>\$ 3,650</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

1. OVERVIEW

Rose Rock Midstream, L.P. is a Delaware limited partnership. The general partner of Rose Rock Midstream, L.P. is Rose Rock Midstream GP, LLC, which is a wholly-owned subsidiary of SemGroup Corporation. SemGroup Corporation is a Delaware corporation headquartered in Tulsa, Oklahoma that provides diversified midstream services to the energy industry.

The terms “we,” “our,” “us,” “Rose Rock,” the “Partnership” and similar language used in these notes to the unaudited condensed consolidated financial statements refer to Rose Rock Midstream, L.P. and its subsidiaries. The term “SemGroup” refers to SemGroup Corporation and its controlled subsidiaries, including Rose Rock Midstream GP, LLC.

Basis of presentation

These condensed consolidated financial statements include the accounts of Rose Rock Midstream, L.P. and its controlled subsidiaries.

The condensed consolidated balance sheet at December 31, 2013, which is derived from audited financial statements and the unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the SEC. These condensed consolidated financial statements include all normal and recurring adjustments that, in the opinion of management, are necessary to present fairly the financial position of the Partnership and the results of its operations and its cash flows. All significant transactions between Rose Rock Midstream, L.P. and its consolidated subsidiaries have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements. Although management believes these estimates are reasonable, actual results could differ materially from these estimates. The results of operations for the three months and six months ended June 30, 2014, are not necessarily indicative of the results to be expected for the full year ending December 31, 2014.

Pursuant to the rules and regulations of the SEC, the accompanying condensed consolidated financial statements do not include all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States. Certain reclassifications have been made to conform previously reported balances to the current presentation. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2013, which are included in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC.

Our significant accounting policies are consistent with those described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

2. EQUITY METHOD INVESTMENT

SemCrude Pipeline, L.L.C.

Prior to our December 16, 2013 acquisition of additional ownership interests in SemCrude Pipeline, L.L.C. ("SCPL") (Note 3), we accounted for our interest in SCPL under the equity method. Under the equity method, we did not report the individual assets and liabilities of SCPL on our consolidated balance sheets. Instead, our membership interest was reflected in one line as a noncurrent asset on our consolidated balance sheets. Subsequent to our acquisition of additional ownership interest, we consolidated SCPL and reported a noncontrolling interest for the ownership interest in SCPL which was retained by SemGroup. Subsequent to our June 23, 2014 acquisition of the remaining interest in SCPL, there is no longer a noncontrolling interest.

Prior to consolidation, for the three months and six months ended June 30, 2013, we recorded equity in earnings of SCPL of \$3.5 million and \$6.9 million, respectively. For the three months and six months ended June 30, 2013, we received cash distributions of \$4.2 million and \$7.1 million, respectively. Distributions are paid on a one-month lag. Accordingly, the cash distributions received for the three months and six months ended June 30, 2013 relate to earnings from March to May 2013 and January to May 2013, respectively.

SCPL's only substantial asset is a 51% interest in White Cliffs Pipeline, L.L.C. ("White Cliffs"), which is accounted for under the equity method.

White Cliffs Pipeline, L.L.C.

Under the equity method, we do not report the individual assets and liabilities of White Cliffs. Instead, our membership interest is reflected in one line as a noncurrent asset on our condensed consolidated balance sheets.

For the three months and six months ended June 30, 2014, we recorded equity in earnings of White Cliffs of \$12.3 million and \$23.4 million, respectively. For the three months and six months ended June 30, 2014, we received \$14.5 million and \$28.1 million of cash distributions, respectively, of which, prior to our June 23, 2014 acquisition of the remaining 33% interest in SCPL, approximately 33% was distributed to SemGroup related to their noncontrolling interest. Refer to Note 3 for further discussion of this acquisition.

Certain summarized income statement information of White Cliffs for the three months and six months ended June 30, 2014 and 2013 is shown below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	\$ 34,533	\$ 30,112	\$ 67,807	\$ 60,785
Operating, general and administrative expenses	\$ 5,539	\$ 4,113	\$ 12,307	\$ 9,292
Depreciation and amortization expense	\$ 4,537	\$ 4,715	\$ 8,930	\$ 9,430
Net income	\$ 24,457	\$ 21,284	\$ 46,570	\$ 42,063

The equity in earnings of White Cliffs for the three months and six months ended June 30, 2014 and 2013 is less than 51% of the net income of White Cliffs for the same periods. This is due to certain general and administrative expenses incurred in managing the operations of White Cliffs that the other owners are not obligated to share. Such expenses are recorded by White Cliffs and are allocated to our ownership interest. White Cliffs recorded \$0.4 million and \$0.4 million of such general and administrative expense for the three months ended June 30, 2014 and 2013, respectively. White Cliffs recorded \$0.8 million and \$0.7 million of such general and administrative expense for the six months ended June 30, 2014 and 2013, respectively.

The members of White Cliffs are required to fund capital contribution requirements for an expansion project adding a 12 -inch line from Platteville, Colorado to Cushing, Oklahoma. For the three months and six months ended June 30, 2014, we contributed \$38.3 million and \$51.0 million to White Cliffs, respectively. This expansion will increase the pipeline's capacity to about 150,000 barrels per day and is expected to be fully operational in August 2014. Remaining contributions will be made in 2014 and are expected to total \$2.3 million.

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

3. ACQUISITIONS

During the six months ended June 30, 2014 , we completed the following acquisitions:

- On June 23, 2014, we acquired the remaining 33% interest in SCPL from SemGroup for (i) cash of approximately \$114.4 million , (ii) the issuance of 2.425 million common units, (iii) the issuance of 1.25 million Class A units, and (iv) an increase of the capital account of our general partner and a related issuance of general partner interest, to allow our general partner to maintain its 2% general partner interest in us. SCPL owns a 51% membership interest in White Cliffs. As the transaction was between entities under common control, we recorded our investment in SCPL based on SemGroup's historical cost. The purchase price in excess of historical cost was treated as an equity transaction with SemGroup, which reduced the partners' capital accounts of our general and limited partners on a pro-rata basis.
- On June 24, 2014, we acquired crude oil trucking assets from a subsidiary of Chesapeake Energy Corporation ("Chesapeake") for \$44.0 million in cash. Highlights of the transaction include:
 - 124 trucks, 122 trailers and miscellaneous equipment; and
 - a long-term transportation agreement with Chesapeake Energy Marketing, Inc.

The results of operations of these assets from June 24, 2014 to June 30, 2014 have been included in our condensed consolidated statements of income and in our condensed consolidated balance sheet as of June 30, 2014. During the three months and six months ended June 30, 2014, our condensed consolidated statements of income did not include material amounts of revenue or operating income related to these assets. The proforma impact to comparative prior year periods, had the acquisition occurred at the beginning of the comparative prior year period, is not significant.

We are in the process of obtaining an independent appraisal of the fair value of the assets acquired from Chesapeake. The estimates of fair value reflected as of June 30, 2014, are subject to change and such changes could be material. We currently expect to complete the valuation process prior to filing our Form 10-K for the year ending December 31, 2014. We have preliminarily estimated the fair value of the assets acquired as follows (in thousands):

Property, plant and equipment	\$	21,700
Customer contract intangible		4,459
Goodwill		17,835
Total assets acquired	\$	<u>43,994</u>

Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired. Goodwill primarily represents the value of synergies between the acquired entity and the Partnership, the opportunity to use the acquired business as a platform for growth and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

The acquisition above accounted for the majority of the change in our goodwill during the six months ended June 30, 2014, as follows (in thousands):

Balance at December 31, 2013	\$	28,322
Acquisition		17,835
Barcas Field Services, L.L.C. purchase price adjustment		(98)
Balance at June 30, 2014	\$	<u>46,059</u>

During the year ended December 31, 2013, we completed the following acquisitions:

- On January 11, 2013, we acquired a 33% interest in SCPL from SemGroup for (i) cash of approximately \$189.5 million , (ii) the issuance of 1.5 million common units, (iii) the issuance of 1.25 million Class A units, and (iv) an

ROSE ROCK MIDSTREAM, L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

3. ACQUISITIONS, Continued

increase of the capital account of our general partner and a related issuance of general partner interest, to allow our general partner to maintain its 2% general partner interest in us. Subsequent to the transaction, our condensed consolidated financial statements reflected our ownership in SCPL on an equity method basis. As the transaction was between entities under common control, we recorded our investment in SCPL based on SemGroup's historical cost. The purchase price in excess of historical cost was treated as an equity transaction with SemGroup, which reduced the partners' capital accounts of our general and limited partners on a pro-rata basis.

- On September 1, 2013, we completed the acquisition of the assets of Barcas Field Services, L.L.C. for \$49.0 million . During the six months ended June 30, 2014 , we recorded a non-cash adjustment to the purchase price allocation which decreased goodwill and other intangible assets by \$0.1 million , with an offsetting increase to property, plant and equipment.
- On November 8, 2013, we acquired a 12 -mile, 12 -inch crude oil pipeline from Noble Energy, Inc. that extends from Platteville, Colorado to Tampa, Colorado for a purchase price of \$8.2 million .
- On December 16, 2013, we acquired an additional 33% interest in SCPL from SemGroup in exchange for (i) cash of approximately \$173.1 million , (ii) the issuance of 1.5 million common units, (iii) the issuance of 1.25 million Class A units, and (iv) an increase of the capital account of our general partner and a related issuance of general partner interest, to allow our general partner to maintain its 2% general partner interest in us. Subsequent to the transaction, we consolidated SCPL and our condensed consolidated financial statements reflect our ownership of White Cliffs under the equity method. As the transaction was between entities under common control, we recorded our investment in White Cliffs based on SemGroup's historical cost. The purchase price in excess of historical cost was treated as an equity transaction with SemGroup, which reduced the partners' capital accounts of our general and limited partners on a pro-rata basis.

4. FINANCIAL INSTRUMENTS

Commodity derivative contracts

Our results of operations and cash flows are impacted by changes in market prices for petroleum products. This exposure to commodity price risk is managed, in part, by entering into various commodity derivatives.

We seek to manage the price risk associated with our marketing operations by limiting our net open positions through (i) the concurrent purchase and sale of like quantities of crude oil to create back-to-back transactions that are intended to lock in positive margins based on the timing, location or quality of the crude oil purchased and delivered or (ii) derivative contracts. Our storage and transportation assets also can be used to mitigate location and time basis risk. All marketing activities are subject to our Comprehensive Risk Management Policy, which establishes limits in order to manage risk and mitigate financial exposure.

Our commodity derivatives can be comprised of crude oil and natural gas liquids forward contracts and futures contracts. These are defined as follows:

Forward contracts – Over the counter ("OTC") contracts to buy or sell a commodity at an agreed upon future date. The buyer and seller agree on specific terms (price, quantity, delivery period, and location) and conditions at the inception of the contract.

Futures contracts – Exchange traded contracts to buy or sell a commodity. These contracts are standardized by the exchange in terms of quality, quantity, delivery period and location for each commodity.

We record commodity derivative assets and liabilities at fair value at each balance sheet date with the exception of commitments which have been designated as normal purchases and sales. The table below summarizes the balances of these assets and liabilities at June 30, 2014 and December 31, 2013 (in thousands):

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

4. FINANCIAL INSTRUMENTS, Continued

	June 30, 2014			December 31, 2013		
	Level 1	Netting*	Total	Level 1	Netting*	Total
Assets	\$ 185	\$ —	\$ 185	\$ 36	\$ (36)	\$ —
Liabilities	—	—	—	96	(36)	60
Net assets (liabilities) at fair value	\$ 185	\$ —	\$ 185	\$ (60)	\$ —	\$ (60)

* Relates primarily to exchange traded futures. Gain and loss positions on multiple contracts are settled net on a daily basis with the exchange.

“Level 1” measurements are based on inputs consisting of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. These include commodity futures contracts that are traded on an exchange.

“Level 2” measurements are based on inputs consisting of market observable and corroborated prices for similar derivative contracts. Assets and liabilities classified as Level 2 include OTC traded physical fixed priced purchases and sales forward contracts.

“Level 3” measurements are based on inputs from a pricing service and/or internal valuation models incorporating observable and unobservable market data.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value levels. At June 30, 2014, all of our physical fixed price forward purchases and sales contracts were being accounted for as normal purchases and normal sales.

There were no financial assets or liabilities classified as Level 2 or Level 3 during the three months and six months ended June 30, 2014 and 2013, as such no rollforward of activity has been presented.

The following table sets forth the notional quantities for commodity derivative instruments entered into during the periods indicated (in thousands of barrels):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Sales	1,135	720	1,950	1,330
Purchases	1,005	615	1,815	1,290

We have not designated any of our commodity derivative instruments as accounting hedges. We record the fair value of the derivative instruments on our condensed consolidated balance sheets in other current assets and other current liabilities. The fair value of our commodity derivative assets and liabilities recorded to other current assets and other current liabilities was as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Commodity contracts	\$ 185	\$ —	\$ —	\$ 60

We have posted margin deposits as collateral with brokers who have the right of set off associated with these funds. Our margin deposit balances were \$1.1 million and \$0.8 million as of June 30, 2014 and December 31, 2013, respectively. These margin account balances have not been offset against our net commodity derivative instrument (contract) positions. Had these margin account balances been netted against our net commodity derivative instrument (contract) positions as of June 30, 2014 and December 31, 2013, we would have had net asset positions of \$1.3 million and \$0.8 million, respectively.

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

4. FINANCIAL INSTRUMENTS, Continued

Realized and unrealized gains (losses) from our commodity derivatives were recorded to product revenue in the following amounts (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Commodity contracts	\$ (1,942)	\$ (233)	\$ (2,749)	\$ (777)

Concentrations of risk

During the three months ended June 30, 2014, two third-party customers accounted for approximately 78% of our consolidated revenue. We purchased approximately \$171 million of product from three third-party suppliers, which represented approximately 67% of our costs of products sold.

During the six months ended June 30, 2014, two third-party customers accounted for approximately 72% of our consolidated revenue. We purchased approximately \$275 million of product from two third-party suppliers, which represented approximately 54% of our costs of products sold.

At June 30, 2014, three third-party customers and one related party accounted for 64% of our consolidated accounts receivable.

5. LONG-TERM DEBT

Senior unsecured notes

On June 27, 2014, Rose Rock and its wholly-owned subsidiary, Rose Rock Finance Corporation ("Finance Corp."), as co-issuer, agreed to sell \$400 million of 5.625% senior unsecured notes due 2022 (the "Notes") to certain initial purchasers for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to non-U.S. persons outside the United States pursuant to Regulation S of the Securities Act. The Notes are guaranteed by all of our existing subsidiaries other than Finance Corp. Such guarantees of the Notes are full and unconditional and constitute the joint and several obligations of the subsidiary guarantors.

The net proceeds from the offering of \$391.9 million, after underwriters' fees and offering expenses, were received on July 2, 2014. As we entered into the agreement with the initial purchasers on June 27, 2014, we recorded the liability for the Notes on that date and recorded a receivable for the proceeds. We used the net proceeds from the offering to repay amounts borrowed under our revolving credit facility and for general partnership purposes.

The Notes are governed by an indenture between the Partnership, its subsidiary guarantors, Finance Corp. and Wilmington Trust, National Association, as trustee (the "Indenture"). The Indenture includes customary covenants, including limitations on our ability to incur additional indebtedness or issue certain preferred shares; pay dividends and make certain distributions, investments and other restricted payments; create certain liens; sell assets; enter into transactions with affiliates; merge, consolidate, sell or otherwise dispose of all or substantially all of our assets; and designate our subsidiaries as unrestricted under the Indenture.

The Indenture includes customary events of default. A default would permit the trustee or holders of at least 25% in aggregate principal amounts of the Notes then outstanding to declare all amounts owing under the Notes to be due and payable.

The Notes are effectively subordinated in right of payment to any of our, and the subsidiary guarantors', existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness.

The Partnership may issue additional Notes under the Indenture from time to time, subject to the terms of the Indenture.

Except as described below, the Notes are not redeemable at the Partnership's option prior to July 15, 2017. From and after July 15, 2017, the Partnership may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if redeemed during the twelve-month period beginning on July 15 of each of the years indicated below:

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

5. LONG-TERM DEBT, Continued

<u>Year</u>	<u>Percentage</u>
2017	104.219%
2018	102.813%
2019	101.406%
2020 and thereafter	100.000%

Prior to July 15, 2017, the Partnership may, at its option, on one or more occasions, redeem up to 35% of the sum of the original aggregate principal amount of the Notes at a redemption price equal to 105.625% of the aggregate principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of one or more equity offerings of the Partnership, or the parent of the Partnership to the extent such net proceeds are contributed to the Partnership, subject to certain conditions.

Prior to July 15, 2017, the Partnership may also redeem all or part of the Notes at a price equal to the principal plus a premium equal to the greater of 1% of the principal or the excess of the present value of the July 15, 2017 redemption price from the table above plus all required interest payments due through July 15, 2017, computed using a discount rate based on a published United States Treasury Rate plus 50 basis points, over the principal value of such Note.

In the event of a change of control, the Partnership is required to offer to repurchase the Notes at an amount equal to 101% of the principal plus accrued and unpaid interest.

The Notes are also subject to a Registration Rights Agreement which requires the Partnership to file a registration statement with the SEC and to use commercially reasonable efforts to consummate such exchange offer within one year of settlement date of the Notes so that holders of the Notes can exchange the Notes and related guarantees for registered notes (the "Exchange Notes") and guarantees that have substantially identical terms as the Notes and related guarantees. The guarantees of the Exchange Notes will be full and unconditional and will constitute the joint and several obligations of the subsidiary guarantors. Failure to meet the terms of the Registration Rights Agreement will require the Partnership to pay incremental interest of 0.25% per annum, increased by an additional 0.25% per annum for each 90-day period for which registration default continues (up to a maximum of 1.0% per annum).

Each of the subsidiary guarantors is 100% owned by the Partnership. The Partnership has no assets or operations independent of its subsidiaries and there are no significant restrictions upon the ability of the Partnership, or any of its subsidiaries, to obtain funds from its respective subsidiaries by dividend or loan. None of the assets of the Partnership's subsidiaries represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act.

Interest on the Notes is payable in arrears on January 15th and July 15th to holders of record on January 1st and July 1st each year until maturity. At June 30, 2014, we had \$8.7 million of unamortized debt issuance costs related to the Notes included in other noncurrent assets on our consolidated balance sheet.

At June 30, 2014, we were in compliance with the terms of the Notes.

Revolving credit facility

At June 30, 2014, we had outstanding borrowings of \$447.5 million on our \$585 million revolving credit facility, which incurred interest at the alternate base rate ("ABR") plus an applicable margin. The interest rate in effect at June 30, 2014, on ABR borrowings was 4.0%. On July 2, 2014, the proceeds from the Notes were used to pay down the revolving credit facility balance.

We had \$30.0 million in outstanding letters of credit at June 30, 2014, and the rate per annum was 1.75%. In addition, a fronting fee of 0.25% is charged on outstanding letters of credit.

A commitment fee that ranges from 0.375% to 0.50%, depending on a leverage ratio specified in the credit agreement, is charged on any unused capacity of the revolving credit facility.

At June 30, 2014, we had \$54.6 million of secured bilateral letters of credit outstanding. The interest rate in effect was 1.75%. Secured bilateral letters of credit are external to the facility and do not reduce availability for borrowing on our revolving credit facility.

At June 30, 2014, we were in compliance with the terms of the credit agreement.

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

5. LONG-TERM DEBT, Continued

At June 30, 2014, \$4.3 million in capitalized loan fees, net of accumulated amortization, related to the revolving credit facility was recorded in other noncurrent assets, which is being amortized over the life of the facility.

At June 30, 2014, we had \$39 thousand (\$107 thousand including current portion) of capital lease obligations reported as long-term debt on the consolidated balance sheet.

Fair value

We estimate the fair value of our senior unsecured notes to be \$405 million at June 30, 2014, based on unadjusted, transacted market prices, which is categorized as a Level 1 measurement. We estimate that the fair value of our revolving long-term debt was not materially different than the reported values at June 30, 2014, and is categorized as a Level 3 measurement. It is our belief that neither the market interest rates nor our credit profile have changed significantly enough to have had a material impact on the fair value of our revolving debt outstanding at June 30, 2014.

6. COMMITMENTS AND CONTINGENCIES

Bankruptcy matters

On July 22, 2008 (the "Petition Date"), SemGroup, L.P., SemCrude, L.P. ("SemCrude"), the predecessor of Rose Rock, and Eaglwing, L.P. ("Eaglwing") filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. While in bankruptcy, SemGroup, L.P. filed a plan of reorganization with the court, which was confirmed on October 28, 2009 (the "Plan of Reorganization"). The Plan of Reorganization determined, among other things, how pre-Petition Date obligations would be settled, the equity structure of the reorganized company upon emergence and the financing arrangements upon emergence. SemGroup, SemCrude, and Eaglwing emerged from bankruptcy protection on November 30, 2009 (the "Emergence Date").

(a) *Confirmation order appeal*

Luke Oil appeal. On October 21, 2009, Luke Oil Company, C&S Oil/Cross Properties, Inc., Wayne Thomas Oil and Gas and William R. Earnhardt Company (collectively, "Luke Oil") filed an objection to the Plan of Reorganization "to the extent that the Plan of Reorganization may alter, impair or otherwise adversely affect Luke Oil's legal rights or other interests." On October 28, 2009, the bankruptcy court overruled the Luke Oil objection and entered the confirmation order. On November 6, 2009, Luke Oil filed a Notice of Appeal. On December 23, 2009, Luke Oil's appeal was docketed in the United States District Court for the District of Delaware. SemGroup filed a motion to dismiss the appeal as equitably moot. On May 21, 2012, the District Court entered an order granting SemGroup's motion to dismiss Luke Oil's appeal of the confirmation order. On June 18, 2012, Luke Oil filed its Notice of Appeal, notifying the District Court and the parties to the lawsuit that it was appealing the decision of the District Court to the United States Court of Appeals for the Third Circuit. On August 27, 2013, the United States Court of Appeals for the Third Circuit issued an opinion, and on September 18, 2013, issued a judgment reversing the District Court's dismissal of the confirmation order and remanding the case to the District Court for consideration on the merits of Luke Oil's appeal of the confirmation order. On October 1, 2013, at the request of the parties, the District Court entered an order staying the case and referring it to a magistrate judge for mediation. On January 28, 2014, the parties reached agreement to settle all outstanding disputes. A settlement agreement was executed by the parties pursuant to which each party granted the other a release of claims and causes of action and on March 5, 2014, the appeal was dismissed. We are indemnified by SemGroup against any loss in this matter pursuant to the terms of the omnibus agreement with SemGroup.

(b) *Claims reconciliation process*

A large number of parties have made claims against SemGroup for obligations alleged to have been incurred prior to the Petition Date. On September 15, 2010, the bankruptcy court entered an order estimating the contingent, unliquidated and disputed claims and authorizing distributions to holders of allowed claims. Pursuant to that order, SemGroup has begun making distributions to the claimants. SemGroup continues to attempt to settle unresolved claims.

Pursuant to the Plan of Reorganization, SemGroup committed to settle all pre-petition claims by paying a specified amount of cash, issuing a specified number of warrants and issuing a specified number of shares of SemGroup Corporation common stock. The resolution of most of the outstanding claims will not impact the

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

6. COMMITMENTS AND CONTINGENCIES, Continued

total amount of consideration SemGroup will give to the claimants; instead, the resolution of the claims will impact the relative share of the total consideration that each claimant receives.

However, there is a specified group of claims for which SemGroup could be required to pay additional funds to settle. Pursuant to the Plan of Reorganization, SemGroup set aside a specified amount of restricted cash at the Emergence Date, which SemGroup expected to be sufficient to settle this group of claims. Since the Emergence Date, SemGroup has made significant progress in resolving these claims and continues to believe that the cash set aside at the Emergence Date will be sufficient to pay these claims. However, SemGroup has not yet reached a resolution of all of these claims and, if the total settlement amount of these claims exceeds the specified amount, SemGroup will be required to pay additional funds to these claimants and we could be required to share in this expense. We are indemnified by SemGroup against any loss in this matter pursuant to the terms of the omnibus agreement with SemGroup.

Environmental

We may, from time to time, experience leaks of petroleum products from our facilities and, as a result of which, we may incur remediation obligations or property damage claims. In addition, we are subject to numerous environmental regulations. Failure to comply with these regulations could result in the assessment of fines or penalties by regulatory authorities.

The Kansas Department of Health and Environment (“KDHE”) initiated discussions during SemGroup’s bankruptcy proceeding regarding five of our sites in Kansas that the KDHE believed, based on their historical use, may have soil or groundwater contamination in excess of state standards. The KDHE sought our agreement to undertake assessments of these sites to determine whether they are contaminated. SemGroup entered into a Consent Agreement and Final Order with the KDHE to conduct environmental assessments on the sites and to pay the KDHE’s costs associated with their oversight of this matter. SemGroup has conducted Phase II investigations at all sites. Three of the five sites have limited amounts of soil contamination that will be excavated and/or remediated on site. Three of the five sites appear to have ground water contamination that may require further delineation and/or on-going monitoring. Work plans have been submitted to, and approved by, the KDHE. SemGroup does not anticipate any penalties or fines for these historical sites. We are indemnified by SemGroup against any loss in this matter pursuant to the terms of the omnibus agreement with SemGroup.

Blueknight claim

Blueknight Energy Partners, L.P. (“Blueknight”), which was formerly a subsidiary of SemGroup, together with other entities related to Blueknight, entered into a Shared Services Agreement on April 7, 2009, with SemCrude and SemManagement, L.L.C. (which are currently subsidiaries of SemGroup). The services provided by SemCrude to Blueknight under this agreement included assisting Blueknight with movement of crude oil belonging to Blueknight’s customers and with the operation of Blueknight’s Oklahoma pipeline system and its Cushing, Oklahoma terminal. Under the subsequent amendments to the agreements beginning in May 2010, certain of these services were phased out and Blueknight began to perform all services necessary for the movement of its crude oil and the operation of its Cushing terminal without SemCrude's assistance.

In a letter dated August 18, 2011, Blueknight claimed that SemCrude owes Blueknight approximately 141,000 barrels of crude oil. SemGroup responded to Blueknight’s letter denying their charges and requesting documentation from Blueknight of its claim. On February 14, 2012, after months of interaction between the parties through which Blueknight was requested to substantiate its claim, Blueknight filed suit against SemGroup and other related companies in the District Court of Oklahoma County, Oklahoma. On May 1, 2012, the case was transferred to Tulsa County, Oklahoma. On July 2, 2012, the Tulsa County District Court appointed a Special Master to review terminal operations accounting records and determine whether 141,000 barrels of crude oil owned by Blueknight is missing after three months of operations in April through June, 2010. On June 11, 2013, the Special Master’s Report was filed with the District Court finding a shortage in Blueknight’s Cushing terminal and Oklahoma pipeline system of 148,000 barrels. However, after a review of all records created during that three month time period, the Special Master was unable to determine how the shortage might have occurred and was unable to determine the ownership of the potential shortage.

We are currently seeking discovery in the District Court of documentation and testimony on the potential cause and the impact, if any, of the shortage found by the Special Master. On February 20, 2014, the District Court issued an order denying all requests for summary judgment and ordering discovery to go forward. SemGroup will continue to defend its

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

6. COMMITMENTS AND CONTINGENCIES, Continued

position; however, we cannot predict the outcome. We are indemnified by SemGroup against any loss in this matter pursuant to the terms of the omnibus agreement with SemGroup.

Other matters

We are party to various other claims, legal actions and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these claims, legal actions and complaints, after consideration of amounts accrued, insurance coverage and other arrangements, will not have a material effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain and estimates of our consolidated liabilities may change materially as circumstances develop.

Asset retirement obligations

We may be subject to removal and restoration costs upon retirement of our facilities. However, we are unable to predict when, or if, our pipelines, storage tanks and related facilities would become completely obsolete and require decommissioning. Accordingly, we have not recorded a liability or corresponding asset, as both the amount and timing of such potential future costs are indeterminable.

Purchase and sale commitments

We routinely enter into agreements to purchase and sell petroleum products at specified future dates. We create a margin for these purchases by entering into various types of physical and financial sales and exchange transactions through which we seek to maintain a position that is substantially balanced between purchases on the one hand and sales and future delivery obligations on the other. We account for derivatives at fair value with the exception of commitments which have been designated as normal purchases and sales, for which we do not record assets or liabilities related to these agreements until the product is purchased or sold. At June 30, 2014, such commitments included the following (in thousands):

	Volume (Barrels)		Value
Fixed price purchases	145	\$	13,348
Fixed price sales	175	\$	17,720
Floating price purchases	9,329	\$	949,093
Floating price sales	9,603	\$	986,856

Certain of the commitments shown in the table above relate to agreements to purchase product from a counterparty and to sell a similar amount of product (in a different location) to the same counterparty. Many of the commitments shown in the table above are cancellable by either party, as long as notice is given within the time frame specified in the agreement, generally 30 to 120 days.

See Note 2 for commitments related to the White Cliffs pipeline expansion.

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

7. PARTNERS' CAPITAL AND DISTRIBUTIONS

Unaudited condensed consolidated statement of changes in partners' capital

The following table shows the changes in our partners' capital accounts from December 31, 2013 to June 30, 2014 (in thousands):

	Common Units - Public	Common Units - SemGroup	Subordinated Units	Class A Units	General Partner Interest	Non-controlling Interests	Total Equity
Balance at December 31, 2013	\$ 159,961	\$ 79,218	\$ (5,375)	\$ 40,772	\$ 5,995	\$ 78,557	\$ 359,128
Net income	11,250	4,369	6,860	(795)	1,847	7,758	31,289
Cash distributions to noncontrolling interest in SCPL	—	—	—	—	—	(10,683)	(10,683)
Contributions from noncontrolling interest in SCPL	—	—	—	—	—	14,367	14,367
Purchase of remaining one-third interest in SCPL	—	—	—	—	—	(89,999)	(89,999)
Equity issuance	—	120,013	—	58,563	3,644	—	182,220
Purchase price in excess of historical cost of interest in SCPL	(85,173)	(42,183)	(51,931)	(23,213)	(4,133)	—	(206,633)
Unvested distribution equivalent rights	(43)	—	—	—	—	—	(43)
Cash distributions to partners	(13,209)	(4,214)	(8,054)	—	(1,267)	—	(26,744)
Non-cash equity compensation	390	—	—	—	—	—	390
Balance at June 30, 2014	<u>\$ 73,176</u>	<u>\$ 157,203</u>	<u>\$ (58,500)</u>	<u>\$ 75,327</u>	<u>\$ 6,086</u>	<u>\$ —</u>	<u>\$ 253,292</u>

The following table shows the cash distributions paid or declared per common unit during 2014 and 2013 :

Quarter Ended	Record Date	Payment Date	Distribution Per Unit
December 31, 2012	February 4, 2013	February 14, 2013	\$0.4025
March 31, 2013	May 6, 2013	May 15, 2013	\$0.4300
June 30, 2013	August 5, 2013	August 14, 2013	\$0.4400
September 30, 2013	November 5, 2013	November 14, 2013	\$0.4500
December 31, 2013	February 4, 2014	February 14, 2014	\$0.4650
March 31, 2014	May 5, 2014	May 15, 2014	\$0.4950
June 30, 2014	August 4, 2014	August 14, 2014	\$0.5350

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

7. PARTNERS' CAPITAL AND DISTRIBUTIONS, Continued

Equity incentive plan

On December 8, 2011, the board of directors of our general partner adopted the Rose Rock Midstream Equity Incentive Plan (the "Incentive Plan"). We granted 42,036 restricted unit awards during the six months ended June 30, 2014, with a weighted average grant date fair value of \$40.43. At June 30, 2014, there were 107,868 unvested restricted unit awards that have been granted pursuant to the Incentive Plan. There were no vestings of restricted unit awards during the six months ended June 30, 2014.

The holders of restricted units granted in 2012 are entitled to equivalent distributions ("UUDs") to be received upon vesting of the restricted unit awards. At June 30, 2014, the value of these UUDs related to unvested restricted units was approximately \$107 thousand. This is equivalent to 1,952 common units, based on the quarter end close of business market price of our common units of \$54.64 per unit. Distributions related to the restricted unit awards granted subsequent to 2012 will be settled in cash upon vesting. At June 30, 2014, the value of these UUDs related to cash settled unvested restricted units was approximately \$95 thousand.

Equity issuance

On June 27, 2014, we issued 2,425,000 common limited partner units, 1,250,000 Class A units and made a non-cash contribution to the general partner related to our acquisition of the remaining 33% interest in SCPL from SemGroup (Note 3).

8. EARNINGS PER LIMITED PARTNER UNIT

Net income is allocated to the general partner and the limited partners in accordance with their respective partnership percentages, after giving effect to any priority income allocations, such as incentive distributions that are allocated to the general partner.

Basic and diluted earnings per limited partner unit is determined by dividing net income allocated to the limited partners by the weighted average number of limited partner units for such class outstanding during the period. Diluted earnings per limited partner unit reflects, where applicable, the potential dilution that could occur if securities or other agreements to issue additional units of a limited partner class, such as restricted unit awards, were exercised, settled or converted into such units.

The following table sets forth the computation of basic and diluted earnings per limited partner unit for the three months and six months ended June 30, 2014 and 2013 (in thousands, except per unit data):

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

8. EARNINGS PER LIMITED PARTNER UNIT, Continued

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income attributable to Rose Rock Midstream, L.P.	\$ 11,048	\$ 9,134	\$ 23,531	\$ 21,128
Less: General partner's incentive distribution earned	888	72	1,376	112
Less: General partner's 2.0% ownership	221	183	471	423
Net income allocated to limited partners	\$ 9,939	\$ 8,879	\$ 21,684	\$ 20,593
Numerator for basic and diluted earnings per limited partner unit (*):				
Allocation of net income among limited partner interests:				
Net income allocable to common units	\$ 7,513	\$ 5,208	\$ 15,619	\$ 11,975
Net income allocable to subordinated units	3,063	3,674	6,860	8,447
Net income (loss) allocable to Class A units	(637)	(3)	(795)	171
Net income allocated to limited partners	\$ 9,939	\$ 8,879	\$ 21,684	\$ 20,593
Denominator for basic and diluted earnings per limited partner unit:				
Basic weighted average number of common units outstanding	18,336	11,894	18,243	11,680
Effect of non-vested restricted units	61	39	54	30
Diluted weighted average number of common units outstanding	18,397	11,933	18,297	11,710
Basic and diluted weighted average number of subordinated units outstanding	8,390	8,390	8,390	8,390
Basic and diluted weighted average number of Class A units outstanding	2,596	1,250	2,548	1,174
Net income per limited partner unit:				
Common unit (basic)	\$ 0.41	\$ 0.44	\$ 0.86	\$ 1.02
Common unit (diluted)	\$ 0.41	\$ 0.44	\$ 0.85	\$ 1.02
Subordinated unit (basic and diluted)	\$ 0.37	\$ 0.44	\$ 0.82	\$ 1.01
Class A unit (basic and diluted)	\$ (0.25)	\$ 0.00	\$ (0.31)	\$ 0.15

(*) We calculate net income allocated to limited partners based on the distributions pertaining to the current period's available cash as defined by our partnership agreement. After adjusting for the appropriate period's distributions, the remaining undistributed earnings or excess distributions over earnings, if any, are allocated to the general partner, limited partners and participating securities in accordance with the contractual terms of the partnership agreement and as further prescribed under the two-class method. Incentive distribution rights do not participate in undistributed earnings. Class A units do not participate in cash distributions, but are allocated a proportional share of undistributed earnings.

9. RELATED PARTY TRANSACTIONS

Direct employee expenses

We do not directly employ any persons to manage or operate our business. These functions are performed by employees of SemGroup. SemGroup charged us \$7.8 million and \$3.1 million during the three months ended June 30, 2014 and 2013, respectively, for direct employee costs. SemGroup charged us \$14.0 million and \$6.0 million during the six months ended June 30, 2014 and 2013, respectively, for such direct employee costs. These expenses were recorded to operating expenses and general and administrative expenses in our condensed consolidated statements of income.

Allocated expenses

SemGroup incurs expenses to provide certain indirect corporate general and administrative services to its subsidiaries. Such expenses include employee compensation costs, professional fees and rental fees for office space, among other

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

9. RELATED PARTY TRANSACTIONS, Continued

expenses. SemGroup charged us \$2.8 million and \$1.7 million during the three months ended June 30, 2014 and 2013 , respectively, for such allocated costs. SemGroup charged us \$4.6 million and \$3.0 million during the six months ended June 30, 2014 and 2013 , respectively, for such allocated costs. These expenses were recorded to general and administrative expenses in our condensed consolidated statements of income.

NGL Energy Partners LP and subsidiaries (Gavilon, LLC and High Sierra Crude Oil and Marketing, LLC)

SemGroup holds limited partner common units and general partner ownership interests in NGL Energy Partners LP (“NGL Energy”). We generated revenues from NGL Energy of \$99.5 million and \$167.9 million for the three months ended June 30, 2014 and 2013 , respectively. We made purchases of condensate at market prices from NGL Energy in the amount of \$110.1 million and \$145.5 million for the three months ended June 30, 2014 and 2013 , respectively. We received reimbursements from NGL Energy for support services in the amount of \$42.0 thousand and \$42.0 thousand for the three months ended June 30, 2014 and 2013 , respectively.

We generated revenues from NGL Energy of \$233.6 million and \$329.3 million for the six months ended June 30, 2014 and 2013 , respectively. We made purchases of condensate at market prices from NGL Energy in the amount of \$267.8 million and \$285.4 million for the six months ended June 30, 2014 and 2013 , respectively. We received reimbursements from NGL Energy for support services in the amount of \$84.0 thousand and \$84.0 thousand for the six months ended June 30, 2014 and 2013 , respectively.

Transactions with NGL Energy and its subsidiaries primarily relate to marketing, leased storage and transportation services of crude oil, including buy/sell transactions. In accordance with ASC 845-10-15, these transactions were reported as revenue on a net basis in our condensed consolidated statements of income because the purchases of inventory and subsequent sales of the inventory were with the same counterparty. For comparability, prior year amounts above have been recast to include transactions with Gavilon, LLC, which was not a related party until December 2013.

SemGas, L.P.

We purchase condensate at market prices from SemGas, L.P. (“SemGas”), which is a wholly-owned subsidiary of SemGroup. Purchases from SemGas were \$9.8 million and \$5.0 million for the three months ended June 30, 2014 and 2013 , respectively. Purchases from SemGas were \$19.7 million and \$9.1 million for the six months ended June 30, 2014 and 2013 , respectively.

White Cliffs

We generated storage revenues from our equity investee, White Cliffs, of \$0.7 million and \$0.8 million for the three months ended June 30, 2014 and 2013 , respectively. We generated storage revenues from White Cliffs of \$1.5 million and \$1.3 million for the six months ended June 30, 2014 and 2013 , respectively. We incurred \$0.8 million and \$1.7 million of cost for the three months and six months ended June 30, 2014 , respectively, related to transportation fees for shipments on White Cliffs.

Glass Mountain Pipeline, LLC

SemGroup holds a 50% interest in Glass Mountain Pipeline, LLC (“GMP” or “Glass Mountain”). We incurred \$0.1 million of cost for the three months and six months ended June 30, 2014 related to transportation fees for shipments on Glass Mountain's pipeline. We received \$0.1 million and \$0.2 million in fees from Glass Mountain for the three months and six months ended June 30, 2014 , respectively, related to support services associated with Glass Mountain's pipeline operations.

Legal services

The law firm of Conner & Winters, LLP, of which Mark D. Berman is a partner, performs legal services for us. Mr. Berman is the spouse of Candice L. Cheeseman, General Counsel and Secretary. Mr. Berman does not perform any legal services for us. We paid \$42.1 thousand and \$0.1 million in legal fees and related expenses to this law firm during the three months ended June 30, 2014 and 2013 , respectively (of which \$27.0 thousand was paid by White Cliffs during the three months ended June 30, 2014). We paid \$0.1 million and \$0.2 million in legal fees and related expenses to this law firm during the six months ended June 30, 2014 and 2013 , respectively (of which \$81.0 thousand was paid by White Cliffs during the six months ended June 30, 2014).

ROSE ROCK MIDSTREAM, L.P.
Notes to Unaudited Condensed Consolidated Financial Statements

10. SUPPLEMENTAL CASH FLOW INFORMATION

Acquisitions

In connection with the acquisition of the remaining 33% interest in SCPL (Note 3), we issued 2.425 million common units and 1.25 million Class A units, valued at \$120.0 million and \$58.6 million, respectively, as non-cash consideration to SemGroup. In addition, a non-cash contribution of \$3.6 million was recorded to the general partner's capital account.

As the transaction occurred between parties under common control, the purchase price in excess of SemGroup's historical cost of the 33% interest in SCPL was treated as an equity transaction with SemGroup, which reduced the partners' capital accounts pro-rata based on ownership percentages. Of the \$206.6 million of purchase price in excess of historical cost, \$24.4 million represented cash consideration in excess of historical cost and the remaining \$182.2 million reduction represented the non-cash portion of the transaction related to equity consideration.

In connection with this transaction, at June 30, 2014, we accrued a \$1.7 million distribution to the non-controlling interest in SCPL. This amount represents the cash distribution to be paid to SemGroup in July related to the June earnings of SCPL. This amount is not reflected in the cash flow statement for the six months ended June 30, 2014.

In the first quarter of 2013, in connection with the acquisition of a 33% interest in SCPL (Note 3), we issued 1.5 million common units and 1.25 million Class A units, valued at \$44.4 million and \$30.5 million, respectively, as non-cash consideration to SemGroup. In addition, a non-cash contribution of \$2.7 million was recorded to the general partner's capital account.

As the transaction occurred between parties under common control, the purchase price in excess of SemGroup's historical cost of the 33% interest in SCPL was treated as an equity transaction with SemGroup, which reduced the partners' capital accounts pro-rata based on ownership percentages. Of the \$221.0 million of purchase price in excess of historical cost, \$143.2 million represented cash consideration in excess of historical cost and the remaining \$77.8 million reduction represented the non-cash portion of the transaction related to equity consideration.

Senior unsecured note issuance

On June 27, 2014, we agreed to sell \$400 million of 5.625% senior unsecured notes due 2022 (Note 5). The net proceeds from the offering of \$391.9 million, after underwriters' fees and offering expenses, were received on July 2, 2014, and were used to pay down the revolving credit facility balance. At June 30, 2014, we recorded a receivable for the proceeds and \$8.7 million of debt issuance costs. These non-cash transactions have not been reflected in the cash flow statement for the six months ended June 30, 2014.

Other supplemental disclosures

We paid cash interest of \$5.3 million and \$3.0 million for the six months ended June 30, 2014 and 2013, respectively.

No significant amounts were accrued for purchases of property, plant and equipment for the six months ended June 30, 2014 or 2013.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and our Annual Report on Form 10-K for the year ended December 31, 2013 , filed with the Securities and Exchange Commission (the "SEC").

Overview of Business

We are a growth-oriented Delaware limited partnership formed by SemGroup Corporation ("SemGroup") in 2011 to own, operate, develop and acquire a diversified portfolio of midstream energy assets. We are engaged in the business of crude oil gathering, transportation, storage, distribution and marketing in Colorado, Kansas, Louisiana, Montana, New Mexico, North Dakota, Ohio, Oklahoma, Texas and Wyoming. We serve areas that are experiencing strong production growth and drilling activity through our exposure to the Bakken Shale in North Dakota and Montana, the Denver-Julesburg Basin ("DJ Basin") and the Niobrara Shale in the Rocky Mountain region, and the Granite Wash and the Mississippi Lime Play in the Mid-Continent region. The majority of our assets are strategically located in, or connected to, the Cushing, Oklahoma crude oil marketing hub. Cushing is the designated point of delivery specified in NYMEX crude oil futures contracts and is one of the largest crude oil marketing hubs in the United States ("U.S."). We believe that our connectivity in Cushing and our numerous interconnections with third-party pipelines, refineries and storage terminals provide our customers with the flexibility to access multiple points for the receipt and delivery of crude oil.

Fee-Based Services

We charge a capacity or volume-based fee for the storage and transportation of crude oil and related ancillary services. Our fee-based services include substantially all of our operations in Cushing, Oklahoma and Platteville, Colorado, as well as trucking and a portion of the transportation services we provide on our Kansas and Oklahoma pipeline system. Some of our fee-based contracts are take-or-pay contracts whereby the customer is required to pay us a fixed minimum monthly fee regardless of usage. For the three months ended June 30, 2014 and 2013 , approximately 76% and 63% , respectively, of our Adjusted gross margin was generated by providing fee-based services to customers. For the six months ended June 30, 2014 and 2013 , approximately 74% and 59% , respectively, of our Adjusted gross margin was generated by providing fee-based services to customers. (See "—How We Evaluate Our Operations—Adjusted Gross Margin" for definition of Adjusted gross margin.)

Fixed-Margin Transactions

We purchase crude oil from a producer or supplier at a designated receipt point at an index price, less a transportation fee, and simultaneously sell an identical volume of crude oil at a designated delivery point to the same party at the same index price, thereby locking in a fixed margin that is, in effect, economically equivalent to a transportation fee. We refer to these arrangements as “fixed-margin” or “buy/sell” transactions. These fixed-margin transactions account for a portion of the Adjusted gross margin we generate on our Kansas and Oklahoma pipeline system and through our Bakken Shale operations. For the three months ended June 30, 2014 and 2013 , approximately 10% and 24% , respectively, of our Adjusted gross margin was generated through fixed-margin transactions. For the six months ended June 30, 2014 and 2013 , approximately 10% and 23% , respectively, of our Adjusted gross margin was generated through fixed-margin transactions.

Marketing Activities

We conduct marketing activities by purchasing crude oil for our own account from producers, aggregators and traders and selling crude oil to traders and refiners. Our marketing activities account for a portion of the Adjusted gross margin by using our pipeline, trucking and storage assets to capture location and quality differentials, including blending different crude oil grades to meet the refiners' preferred crude oil specifications. For the three months ended June 30, 2014 and 2013 , approximately 14% and 13% , respectively, of our Adjusted gross margin was generated through marketing activities. For the six months ended June 30, 2014 and 2013 , approximately 16% and 18% , respectively, of our Adjusted gross margin was generated through marketing activities.

We mitigate the commodity price exposure of our crude oil marketing operations by limiting our net open positions through (i) the concurrent purchase and sale of like quantities of crude oil to create “back-to-back” transactions intended to lock in positive margins based on the timing, location or quality of the crude oil purchased and delivered or (ii) derivative contracts. All of our marketing activities are subject to our Comprehensive Risk Management Policy, which establishes limits to manage risk and mitigate financial exposure.

More specifically, we use futures and forward contracts to manage our exposure to market changes in commodity prices to protect our Adjusted gross margin on our purchased crude oil. When we purchase crude oil, we may establish a fixed margin with future sales by:

- selling a like quantity of crude oil for future physical delivery to create an effective back-to-back transaction; or
- entering into futures and forward contracts on the NYMEX or over-the-counter markets.

Our Property, Plant and Equipment

We own and operate all of our assets, which at June 30, 2014 include:

- 7.6 million barrels of crude oil storage capacity in Cushing, Oklahoma, of which 6.5 million barrels are leased to customers and an additional 1.1 million barrels are used for crude oil operations and marketing activities;
- a 570 -mile crude oil gathering and transportation pipeline system with over 620,000 barrels of associated storage capacity in Kansas and northern Oklahoma that is connected to several third-party pipelines and refineries and our storage terminal in Cushing, Oklahoma;
- a 12 -mile crude oil pipeline that connects our Platteville, Colorado crude oil terminal to the Tampa, Colorado crude oil market;
- a crude oil trucking fleet of over 255 transport trucks and 270 trailers; and
- a modern, sixteen -lane crude oil truck unloading facility with 230,000 barrels of associated storage capacity in Platteville, Colorado which connects to the origination point of the White Cliffs Pipeline.

Our Investment in White Cliffs Pipeline, L.L.C.

As of June 23, 2014, we wholly own SemCrude Pipeline, L.L.C. ("SCPL"), which owns a 51% interest in White Cliffs Pipeline, L.L.C. ("White Cliffs"). White Cliffs owns a 527-mile pipeline system that transports crude oil from Platteville, Colorado in the DJ Basin to Cushing, Oklahoma (the "White Cliffs Pipeline"). White Cliffs is commissioning an expansion project which will increase the capacity of the pipeline from approximately 76,000 barrels per day to about 150,000 barrels per day. The expansion is anticipated to be fully operational in August of 2014. We operate the White Cliffs Pipeline and will operate the expanded pipeline.

Recent Developments

Trucking assets acquisition

On June 23, 2014, we acquired certain crude oil trucking assets from a subsidiary of Chesapeake Energy Corporation ("Chesapeake") including 124 trucks, 122 trailers and other miscellaneous equipment operating in Texas, Oklahoma and Ohio for approximately \$44 million.

White Cliffs acquisition

On June 23, 2014, we acquired the remaining 33% interest in SCPL for cash and equity valued at approximately \$297 million, resulting in our owning a 51% interest in White Cliffs.

Senior unsecured notes

On June 27, 2014, we agreed to sell \$400 million of 5.625% senior unsecured notes due 2022 in a private placement which was settled on July 2, 2014.

How We Evaluate Our Operations

Our management uses a variety of financial and operational metrics to analyze our performance. We view these metrics as important factors in evaluating our profitability and review these measurements on at least a monthly basis for consistency and trend analysis. These metrics include financial measures, including Adjusted gross margin, operating expenses and Adjusted EBITDA, and operating data, including contracted storage capacity and transportation, marketing and unloading volumes.

Adjusted Gross Margin

We view Adjusted gross margin as an important performance measure of the core profitability of our operations, as well as our operating performance as compared to that of other companies in our industry, without regard to financing methods, historical cost basis, capital structure or the impact of fluctuating commodity prices. We define Adjusted gross margin as total revenues minus cost of products sold and unrealized gain (loss) on derivatives. Adjusted gross margin allows us to make a meaningful comparison of the operating results between our fee-based activities, which do not involve the purchase or sale of crude oil, and our fixed-margin and marketing operations, which do. In addition, Adjusted gross margin allows us to make a meaningful comparison of the results of our fixed-margin and marketing operations across different commodity price environments because it measures the spread between the product sales price and cost of products sold. See “—Non-GAAP Financial Measures.”

Operating Expenses

Our management seeks to maximize the profitability of our operations, in part, by managing operating expenses. These expenses are comprised of salary and wage expense, utility costs, insurance premiums, taxes and other operating costs, some of which are independent of the volumes we handle.

The current high levels of crude oil exploration, development and production activities are increasing competition for personnel and equipment. This increased competition is placing upward pressure on the prices we pay for labor, supplies and miscellaneous equipment.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before interest expense, income tax expense (benefit), depreciation and amortization, earnings from equity method investments and any other non-cash adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities plus cash distributions from equity method investments. We use Adjusted EBITDA as a supplemental performance and liquidity measure to assess:

- our operating performance as compared to that of other companies in our industry without regard to financing methods, historical cost basis, capital structure or the impact of fluctuating commodity prices;
- the ability of our assets to generate sufficient cash flow to make distributions to our partners;
- our ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities.

Contracted Storage Capacity and Transportation, Marketing and Unloading Volumes

In our Cushing storage operations, we charge our customers a fee for storage capacity provided, regardless of actual usage. On our Kansas and Oklahoma system, in our Bakken Shale operations and through our trucking fleet operations, we provide transportation services on a fee basis or pursuant to fixed-margin transactions, but in either case, the Adjusted gross margin we generate is dependent on the volume of crude oil transported (if on a fee basis) or purchased and sold (if pursuant to a fixed-margin transaction). We refer to these volumes, in the aggregate, as transportation volumes. Similarly, using our pipelines, trucking and storage assets, we conduct marketing activities involving the purchase and sale of crude oil or related derivative contracts and crude oil blending. We refer to the crude oil volumes purchased and sold, or blended in our marketing operations, as marketing volumes. Finally, at our Platteville truck unloading facility, we charge our customers a fee based on the volumes unloaded. We refer to these as unloading volumes.

Selected Consolidated Financial and Operating Data

The following table provides selected historical condensed consolidated financial operating data as of and for the periods shown. The statement of income data for the three months and six months ended June 30, 2014 and 2013 have been derived from our unaudited financial statements for those periods. The selected financial data provided below should be read in conjunction with our condensed consolidated financial statements and related notes included in this Form 10-Q.

The following table presents the non-GAAP financial measures of Adjusted gross margin and Adjusted EBITDA, which we use in our business and view as important supplemental measures of our performance and, in the case of Adjusted EBITDA, our liquidity. Adjusted gross margin and Adjusted EBITDA are not calculated or presented in accordance with GAAP. For definitions of Adjusted gross margin and Adjusted EBITDA and a reconciliation of Adjusted gross margin to operating income and of Adjusted EBITDA to net income and net cash provided by operating activities, their most directly comparable financial measures calculated and presented in accordance with GAAP, please see “—Non-GAAP Financial Measures” below.

(in thousands, except per unit and operating data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Statements of income data:				
Revenues, including revenues from affiliates:				
Product	\$ 267,087	\$ 148,816	\$ 533,377	\$ 307,544
Service	23,345	12,606	47,978	25,110
Total revenues	290,432	161,422	581,355	332,654
Expenses, including expenses from affiliates:				
Costs of products sold, exclusive of depreciation and amortization	255,745	140,506	510,282	288,957
Operating	17,006	5,807	31,884	11,225
General and administrative	6,001	3,254	9,624	6,815
Depreciation and amortization	6,267	3,690	16,801	7,197
Total expenses	285,019	153,257	568,591	314,194
Earnings from equity method investment	12,291	3,451	23,371	6,904
Operating income	17,704	11,616	36,135	25,364
Interest expense	2,595	2,494	4,867	4,248
Other income	(21)	(12)	(21)	(12)
Net income	15,130	9,134	31,289	21,128
Less: net income attributable to noncontrolling interests	4,082	—	7,758	—
Net income attributable to Rose Rock Midstream, L.P.	\$ 11,048	\$ 9,134	\$ 23,531	\$ 21,128
Earnings (loss) per limited partner unit:				
Common unit (basic)	\$ 0.41	\$ 0.44	\$ 0.86	\$ 1.02
Common unit (diluted)	\$ 0.41	\$ 0.44	\$ 0.85	\$ 1.02
Subordinated unit (basic and diluted)	\$ 0.37	\$ 0.44	\$ 0.82	\$ 1.01
Class A unit (basic and diluted)	\$ (0.25)	\$ 0.00	\$ (0.31)	\$ 0.15
Distributions paid per common and subordinated unit	\$ 0.4950	\$ 0.4300	\$ 0.9600	\$ 0.8325
Statements of cash flows data:				
Net cash provided by (used in):				
Operating activities	\$ 5,669	\$ 13,394	\$ 24,057	\$ 23,309
Investing activities	\$ (177,863)	\$ (17,030)	\$ (192,768)	\$ (77,407)
Financing activities	\$ 172,724	\$ 4,917	\$ 156,605	\$ 57,640
Other financial data:				
Adjusted gross margin	\$ 33,836	\$ 20,089	\$ 70,828	\$ 42,402
Adjusted EBITDA	\$ 20,598	\$ 15,420	\$ 48,372	\$ 31,789
Capital expenditures	\$ 7,484	\$ 4,891	\$ 12,392	\$ 11,370
Acquisitions	\$ 133,993	\$ —	\$ 133,993	\$ —
Contributions to equity method investment	\$ 38,622	\$ 12,295	\$ 51,774	\$ 66,193
Operating data:				
Cushing storage capacity (MMBbls as of period end)	7.600	7.250	7.600	7.250
Percent of Cushing storage capacity contracted (as of period end)	86%	97%	86%	97%
Transportation volumes (average Bbls/day)	111,100	57,300	110,500	56,500
Marketing volumes (average Bbls/day)	39,300	22,100	44,400	23,100
Unloading/Platteville volumes (average Bbls/day)	58,200	58,400	60,700	60,300

Non-GAAP Financial Measures

We define Adjusted gross margin as total revenues minus cost of products sold and unrealized gain (loss) on derivatives. We define Adjusted EBITDA as net income before interest expense, income tax expense (benefit), depreciation and amortization, earnings from equity method investments and any other non-cash adjustments to reconcile net income to net cash provided by operating activities plus cash distributions from equity method investments.

Adjusted gross margin and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures provides useful information to investors in assessing our financial condition and results of operations.

Operating income is the GAAP measure most directly comparable to Adjusted gross margin, and net income and cash provided by operating activities are the GAAP measures most directly comparable to Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measures. These non-GAAP financial measures have important limitations as analytical tools because they exclude some, but not all, items that affect the most directly comparable GAAP financial measures. You should not consider Adjusted gross margin and Adjusted EBITDA in isolation or as substitutes for analysis of our results as reported under GAAP. Because Adjusted gross margin and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Management compensates for the limitation of Adjusted gross margin and Adjusted EBITDA as analytical tools by reviewing the comparable GAAP measures, understanding the differences between Adjusted gross margin and Adjusted EBITDA, on the one hand, and operating income, net income and net cash provided by operating activities, on the other hand, and incorporating this knowledge into its decision-making processes. We believe that investors benefit from having access to the same financial measures that our management uses in evaluating our operating results.

The following tables present a reconciliation of: (i) operating income to Adjusted gross margin, and (ii) net income and net cash provided by operating activities to Adjusted EBITDA, the most directly comparable GAAP financial measures for each of the periods indicated.

(Unaudited; in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Reconciliation of operating income to Adjusted gross margin:				
Operating income	\$ 17,704	\$ 11,616	\$ 36,135	\$ 25,364
Add:				
Operating expense	17,006	5,807	31,884	11,225
General and administrative expense	6,001	3,254	9,624	6,815
Depreciation and amortization expense	6,267	3,690	16,801	7,197
Less:				
Earnings from equity method investment	12,291	3,451	23,371	6,904
Impact from derivatives instruments:				
Total loss on derivatives, net	(1,942)	(233)	(2,749)	(777)
Total realized loss (cash flow) on derivatives, net	2,793	1,060	2,994	2,072
Non-cash unrealized gain on derivatives, net	851	827	245	1,295
Adjusted gross margin	\$ 33,836	\$ 20,089	\$ 70,828	\$ 42,402

(Unaudited; in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 15,130	\$ 9,134	\$ 31,289	\$ 21,128
Add:				
Interest expense	2,595	2,494	4,867	4,248
Depreciation and amortization expense	6,267	3,690	16,801	7,197
Cash distributions from equity method investment	14,467	4,168	28,052	7,060
Non-cash equity compensation	130	212	390	355
Gain on disposal of long-lived assets, net	(27)	—	(61)	—
Less:				
Earnings from equity method investment	12,291	3,451	23,371	6,904
White Cliffs cash distributions attributable to noncontrolling interests	4,822	—	9,350	—
Impact from derivative instruments:				
Total loss on derivatives, net	(1,942)	(233)	(2,749)	(777)
Total realized loss (cash flow) on derivatives, net	2,793	1,060	2,994	2,072
Non-cash unrealized gain on derivatives, net	851	827	245	1,295
Adjusted EBITDA	\$ 20,598	\$ 15,420	\$ 48,372	\$ 31,789

(Unaudited; in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Reconciliation of net cash provided by operating activities to Adjusted EBITDA:				
Net cash provided by operating activities	\$ 5,669	\$ 13,394	\$ 24,057	\$ 23,309
Less:				
Changes in operating assets and liabilities, net	(15,240)	423	(24,637)	(4,475)
White Cliffs cash distributions attributable to noncontrolling interests	4,822	—	9,350	—
Add:				
Interest expense, excluding amortization of debt issuance costs	2,335	2,293	4,347	3,849
Distributions from equity investment in excess of equity in earnings	2,176	156	4,681	156
Adjusted EBITDA	\$ 20,598	\$ 15,420	\$ 48,372	\$ 31,789

Three months ended June 30, 2014 vs. three months ended June 30, 2013

Adjusted Gross Margin

The following table shows the calculation of Adjusted gross margin for the three months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,	
	2014	2013
Revenue		
Product	\$ 267,087	\$ 148,816
Service	23,345	12,606
Total revenues	290,432	161,422
Less: Cost of products sold, exclusive of depreciation and amortization	255,745	140,506
Less: Non-cash unrealized gain on derivatives, net	851	827
Adjusted gross margin	<u>\$ 33,836</u>	<u>\$ 20,089</u>

The following tables show the Adjusted gross margin generated by our fee-based services, our fixed-margin transactions and our marketing activities for the three months ended June 30, 2014 and 2013 (in thousands):

Three Months Ended June 30, 2014	Storage	Transportation (1)	Marketing Activities	Other (2)	Total
Revenues	\$ 7,756	\$ 18,394	\$ 261,425	\$ 2,857	\$ 290,432
Less: Costs of products sold, exclusive of depreciation and amortization	—	—	255,745	—	255,745
Less: Unrealized gain on derivatives, net	—	—	851	—	851
Adjusted gross margin	<u>\$ 7,756</u>	<u>\$ 18,394</u>	<u>\$ 4,829</u>	<u>\$ 2,857</u>	<u>\$ 33,836</u>

- (1) Transportation Adjusted gross margin is comprised of \$ 1.3 million, \$ 13.7 million and \$ 3.4 million, related to pipeline transportation (fixed-fee), trucking (fixed-fee) and buy/sells (fixed margin), respectively.
- (2) This category includes fee-based services such as unloading and ancillary storage terminal services.

Three Months Ended June 30, 2013	Storage	Transportation (1)	Marketing Activities	Other (2)	Total
Revenues	\$ 8,629	\$ 5,648	\$ 144,056	\$ 3,089	\$ 161,422
Less: Costs of products sold, exclusive of depreciation and amortization	—	—	140,506	—	140,506
Less: Unrealized gain on derivatives, net	—	—	827	—	827
Adjusted gross margin	<u>\$ 8,629</u>	<u>\$ 5,648</u>	<u>\$ 2,723</u>	<u>\$ 3,089</u>	<u>\$ 20,089</u>

- (1) Transportation Adjusted gross margin is comprised of \$ 0.9 million and \$ 4.7 million, related to pipeline transportation (fixed-fee) and buy/sells (fixed margin), respectively.
- (2) This category includes fee-based services such as unloading and ancillary storage terminal services.

We define Adjusted gross margin as total revenues minus costs of products sold and unrealized gain (loss) on derivatives. (See “—Non-GAAP Financial Measures” for Adjusted gross margin table.) Adjusted gross margin increased in the three months ended June 30, 2014, to \$33.8 million from \$20.1 million in the three months ended June 30, 2013, due to:

- truck transportation volumes of 4.2 million barrels generated an additional \$13.7 million in Adjusted gross margin, reflecting the acquisition of trucking operations in September 2013 and June 2014. Related trucking costs are included in operating expense described below;
- an increase in marketing volume of approximately 1.6 million barrels in the three months ended June 30, 2014, over the same period in 2013, combined with a relatively unchanged spread between the acquisition and sale price for volumes of crude oil sold, as the excess of our average sales price per barrel over our average acquisition cost per barrel decreased to approximately \$1.35 for the three months ended June 30, 2014, from approximately \$1.36 for the three months ended June 30, 2013. This resulted in a \$2.1 million increase in Adjusted gross margin during the three months ended June 30, 2014, compared to the same period in 2013;
- relatively unchanged unloading volumes from our Platteville operations contributed an additional \$0.1 million Adjusted gross margin, during the three months ended June 30, 2014, compared to the same period in 2013;
- the net impact of a higher concentration of short-haul activity at rates that are lower than long-haul and an increase in pipeline transportation volumes of approximately 0.7 million barrels resulted in a \$1.0 million

decrease in Adjusted gross margin during the three months ended June 30, 2014 , compared to the same period in 2013 ;

- although the average Cushing storage capacity increased to 7.6 million barrels for the three months ended June 30, 2014 , from 7.25 million barrels for the three months ended June 30, 2013 , the average capacity used for crude oil operations and marketing activities increased to 0.9 million barrels from 0.25 million barrels. The net decrease in the average leased storage capacity from 7.0 million barrels to 6.7 million barrels, combined with a \$0.02 decrease in the average lease rate per barrel, resulted in a \$0.9 million decrease to Adjusted gross margin; and
- a decrease in pumpover activity at Cushing, resulted in a \$0.3 million decrease in Adjusted gross margin during the three months ended June 30, 2014 , compared to the same period in 2013 .

Operating expense

Operating expenses increased in the three months ended June 30, 2014 to \$17.0 million from \$5.8 million for the three months ended June 30, 2013 . Approximately \$11.1 million of the increase is attributable to the crude oil trucking fleet acquisitions in 2013 and 2014.

General and administrative expense

General and administrative expense increased to \$6.0 million in the three months ended June 30, 2014 from \$3.3 million in the three months ended June 30, 2013 . This increase is due to additional employee expense, outside services relating to the additional one-third drop down of SCPL and overhead allocation of \$0.5 million, \$1.1 million and \$1.1 million, respectively.

Depreciation and amortization expense

Depreciation and amortization expense increased in the three months ended June 30, 2014 to \$6.3 million from \$3.7 million for the three months ended June 30, 2013 . Approximately \$1.3 million of the increase in depreciation expense is due to a revision of the estimated useful life relating to a 19-mile section of the Kansas and Oklahoma pipeline system. An additional \$0.4 million in depreciation expense is due to project completions and the acquisition of the crude oil trucking fleet. Amortization expense increased \$0.9 million due to a contract acquired as part of the crude oil trucking fleet acquisition in 2013.

Earnings from equity method investment

Earnings from our equity method investment in White Cliffs increased in the three months ended June 30, 2014 to \$12.3 million from \$3.5 million for the three months ended June 30, 2013 . The increase is due to our December 2013 acquisition of ownership interest in SCPL and change to the consolidation method of accounting of SCPL (see Note 2 of our condensed consolidated financial statements in this Form 10-Q). These earnings are attributable to fixed-fee pipeline transportation operations.

Interest expense

Interest expense was stable in the three months ended June 30, 2014 at \$2.6 million compared to \$2.5 million for the three months ended June 30, 2013 . The effect of increased average daily balances outstanding was offset, in part, by the effect of lower interest rates between the periods.

Six months ended June 30, 2014 vs. six months ended June 30, 2013

Adjusted Gross Margin

The following table shows the calculation of Adjusted gross margin for the six months ended June 30, 2014 and 2013 (in thousands):

	Six Months Ended June 30,	
	2014	2013
Revenue		
Product	\$ 533,377	\$ 307,544
Service	47,978	25,110
Total revenues	581,355	332,654
Less: Cost of products sold, exclusive of depreciation and amortization	510,282	288,957
Less: Non-cash unrealized gain on derivatives, net	245	1,295
Adjusted gross margin	<u>\$ 70,828</u>	<u>\$ 42,402</u>

The following tables show the Adjusted gross margin generated by our fee-based services, our fixed-margin transactions and our marketing activities for the six months ended June 30, 2014 and 2013 (in thousands):

Six Months Ended June 30, 2014	Storage	Transportation (1)	Marketing Activities	Other (2)	Total
Revenues	\$ 16,236	\$ 37,114	\$ 521,879	\$ 6,126	\$ 581,355
Less: Costs of products sold, exclusive of depreciation and amortization	—	—	510,282	—	510,282
Less: Unrealized gain on derivatives, net	—	—	245	—	245
Adjusted gross margin	<u>\$ 16,236</u>	<u>\$ 37,114</u>	<u>\$ 11,352</u>	<u>\$ 6,126</u>	<u>\$ 70,828</u>

- (1) Transportation Adjusted gross margin is comprised of \$ 2.7 million , \$ 27.2 million and \$ 7.2 million , related to pipeline transportation (fixed-fee), trucking (fixed-fee) and buy/sells (fixed margin), respectively.
- (2) This category includes fee-based services such as unloading and ancillary storage terminal services.

Six Months Ended June 30, 2013	Storage	Transportation (1)	Marketing Activities	Other (2)	Total
Revenues	\$ 16,997	\$ 11,424	\$ 297,870	\$ 6,363	\$ 332,654
Less: Costs of products sold, exclusive of depreciation and amortization	—	—	288,957	—	288,957
Less: Unrealized gain on derivatives, net	—	—	1,295	—	1,295
Adjusted gross margin	<u>\$ 16,997</u>	<u>\$ 11,424</u>	<u>\$ 7,618</u>	<u>\$ 6,363</u>	<u>\$ 42,402</u>

- (1) Transportation Adjusted gross margin is comprised of \$ 1.8 million and \$ 9.6 million , related to pipeline transportation (fixed-fee) and buy/sells (fixed margin), respectively.
- (2) This category includes fee-based services such as unloading and ancillary storage terminal services.

We define Adjusted gross margin as total revenues minus costs of products sold and unrealized gain (loss) on derivatives. (See “—Non-GAAP Financial Measures” for Adjusted gross margin table.) Adjusted gross margin increased in the six months ended June 30, 2014 , to \$70.8 million from \$42.4 million in the six months ended June 30, 2013 , due to:

- truck transportation volumes of 8.0 million barrels generated an additional \$27.2 million in Adjusted gross margin, reflecting the acquisition of trucking operations in September 2013 and June 2014. Related trucking costs are included in operating expense described below;
- an increase in marketing volume of approximately 3.9 million barrels in the six months ended June 30, 2014 , over the same period in 2013, offset by a lower spread between the acquisition and sale price for volumes of crude oil sold, as the excess of our average sales price per barrel over our average acquisition cost per barrel decreased to approximately \$1.41 for the six months ended June 30, 2014 , from approximately \$1.82 for the six months ended June 30, 2013 . This resulted in a \$3.7 million increase in Adjusted gross margin during the six months ended June 30, 2014 , compared to the same period in 2013;
- an increase in unloading volumes from our Platteville operations of approximately 0.1 million barrels, contributed an additional \$0.3 million Adjusted gross margin during the six months ended June 30, 2014 , compared to the same period in 2013 ;

- the net impact of a higher concentration of short-haul activity at rates that are lower than long-haul and an increase in pipeline transportation volumes of approximately 1.7 million barrels resulted in a \$1.5 million decrease in Adjusted gross margin during the six months ended June 30, 2014 , compared to the same period in 2013 ;
- although the average Cushing storage capacity increased to 7.6 million barrels for the six months ended June 30, 2014 , from 7.25 million barrels for the six months ended June 30, 2013 , the average storage capacity used for crude oil operations and marketing activities increased to 0.7 million barrels from 0.25 million barrels. This shift from leased storage capacity to operational storage capacity, combined with a \$0.02 decrease in the average lease rate per barrel, resulted in a \$0.8 million decrease Adjusted gross margin; and
- a decrease in pumlover activity at Cushing, resulted in a \$0.5 million decrease in Adjusted gross margin during the six months ended June 30, 2014 , compared to the same period in 2013 .

Operating expense

Operating expenses increased in the six months ended June 30, 2014 to \$31.9 million from \$11.2 million for the six months ended June 30, 2013 . Approximately \$21.0 million of the increase is attributable to the crude oil trucking fleet acquisitions in 2013 and 2014.

General and administrative expense

General and administrative expense increased to \$9.6 million in the six months ended June 30, 2014 from \$6.8 million for the six months ended June 30, 2013 . This increase is due to additional employee expense and overhead allocation of \$1.1 million and \$1.7 million, respectively.

Depreciation and amortization expense

Depreciation and amortization expense increased in the six months ended June 30, 2014 to \$16.8 million from \$7.2 million for the six months ended June 30, 2013 . Approximately \$7.2 million of the increase in depreciation expense is due to a revision of the estimated useful life relating to a 62-mile section of the Kansas and Oklahoma pipeline system. An additional \$0.7 million in depreciation expense is due to project completions and the acquisition of the crude oil trucking fleet. Amortization expense increased \$1.7 million due to a contract acquired as part of the crude oil trucking fleet acquisition in 2013.

Earnings from equity method investment

Earnings from our equity method investment in White Cliffs increased in the six months ended June 30, 2014 to \$23.4 million from \$6.9 million for the six months ended June 30, 2013 . The increase is due to our December 2013 acquisition of ownership interest in SCPL and change to the consolidation method of accounting of SCPL (see Note 2 of our condensed consolidated financial statements in this Form 10-Q). These earnings are attributable to fixed-fee pipeline transportation operations.

Interest expense

Interest expense increased in the six months ended June 30, 2014 to \$4.9 million from \$4.2 million for the six months ended June 30, 2013 . The increase is due to increase in the average daily balance, the amortization of debt issuance costs, fees and a reduction in the amount of interest capitalized.

Liquidity and Capital Resources

Our principal sources of short-term liquidity are cash generated from operations and borrowings under our revolving credit facility. Potential sources of long-term liquidity include the issuance of debt securities or common units and the sale of assets. Our primary cash requirements currently are operating expenses, capital expenditures and quarterly distributions to our unitholders and general partner. In general, we expect to fund:

- operating expenses, maintenance capital expenditures and cash distributions through existing cash and cash from operating activities;
- expansion related capital expenditures and working capital deficits through cash on hand, borrowings under our credit facility and the issuance of debt securities and common units;
- acquisitions through cash on hand, borrowings under our credit facility and the issuance of debt securities and common units; and

- debt principal payments through cash from operating activities and refinancing when the revolving credit facility and senior unsecured notes become due.

Our ability to meet our financing requirements and fund our planned capital expenditures will depend on our future operating performance, which will be affected by prevailing economic conditions in our industry. In addition, we are subject to conditions in the debt and equity markets for debt securities and limited partner units. There can be no assurance we will be able or willing to access the public or private markets in the future. If we would be unable or unwilling to access those markets, we could be required to restrict future expansion capital expenditures and potential future acquisitions.

We believe our cash from operations and our remaining borrowing capacity allow us to manage our day-to-day cash requirements, distribute the minimum quarterly distribution on all our outstanding common, subordinated and general partner units and meet our capital expenditure commitments for the coming year.

Cash Flows

The following table summarizes our changes in cash and cash equivalents for the periods presented (in thousands):

	Six Months Ended June 30,	
	2014	2013
Cash flows provided by (used in):		
Operating activities	\$ 24,057	\$ 23,309
Investing activities	(192,768)	(77,407)
Financing activities	156,605	57,640
Change in cash and cash equivalents	(12,106)	3,542
Cash and cash equivalents at beginning of period	15,459	108
Cash and cash equivalents at end of period	<u>\$ 3,353</u>	<u>\$ 3,650</u>

Operating Activities

The components of operating cash flows can be summarized as follows (in thousands):

	Six Months Ended June 30,	
	2014	2013
Net income	\$ 31,289	\$ 21,128
Non-cash expenses, net	17,405	6,656
Changes in operating assets and liabilities, net	(24,637)	(4,475)
Net cash flows provided by operating activities	<u>\$ 24,057</u>	<u>\$ 23,309</u>

For the six months ended June 30, 2014, we experienced operating cash inflows of \$24.1 million. Net income of \$31.3 million included \$17.4 million of non-cash expenses, comprised primarily of depreciation and amortization of \$16.8 million. Operating assets and liabilities changed \$24.6 million for the six months ended June 30, 2014. The primary changes to operating assets and liabilities included a decrease in payables to affiliates of \$39.4 million, a decrease to accounts payable and accrued liabilities of \$8.0 million, inventory related cash outflows of \$3.5 million primarily due to linefill, an increase in accounts receivable of \$2.0 million and an increase in other current assets of \$1.1 million, offset by an increase in receivables from affiliates of \$29.4 million. The impact of accounts receivable, accounts payable, accrued liabilities, and inventories is subject to the timing of purchases and sales and fluctuations in commodity pricing.

For the six months ended June 30, 2013, we experienced operating cash inflows of \$23.3 million. Net income of \$21.1 million included \$6.7 million of non-cash expenses, comprised primarily of depreciation and amortization of \$7.2 million offset by \$1.3 million of unrealized gain related to our derivative instruments. Operating assets and liabilities changed \$4.5 million for the six months ended June 30, 2013. The primary changes to operating assets and liabilities included a decrease to accounts payable and accrued liabilities of \$8.2 million, offset by a decrease in inventories of \$2.6 million.

Investing Activities.

For the six months ended June 30, 2014, our cash outflows from investing activities of \$192.8 million related primarily to acquisition payments of \$134.0 million, contributions to equity method investment of \$51.8 million and capital expenditures of \$12.4 million, offset by distributions from equity method investment in excess of equity in earnings of \$4.7 million. Acquisitions include \$90.0 million related to the acquisition of the remaining 33% SCPL interest, excluding cash consideration in excess of historical cost, and \$44.0 million related to the acquisition of crude oil trucking assets from Chesapeake. Year to date capital expenditures primarily relate to our Cushing expansion and transportation projects. Contributions to equity method investment primarily relate to capital calls to fund the White Cliffs Pipeline expansion.

For the six months ended June 30, 2013, our cash outflows of \$77.4 million from investing activities related primarily to contributions to equity method investment of \$66.2 million and capital expenditures of \$11.4 million. Capital expenditures primarily related to our Cushing pipeline and tank expansion projects. The contributions to equity method investment were the acquisition of a 33% interest in SCPL and capital calls in connection with an expansion project to fund the White Cliffs Pipeline expansion. As the investment acquisition was between entities under common control, it was recorded based on SemGroup's historical cost.

Financing Activities.

Net cash inflows of \$156.6 million from financing activities for the six months ended June 30, 2014 were driven primarily by \$202.5 million net borrowings on our revolving credit facility (\$296.0 million of borrowings less \$93.5 million in principal payments on our revolving credit facility), \$26.7 million of cash distributions to partners and \$24.4 million cash consideration in excess of historical cost of the remaining 33% interest in SCPL. In addition, financing activities include \$9.0 million of distributions to and \$14.4 million of contributions from SemGroup as the noncontrolling interest holder in SCPL, prior to our acquisition of SemGroup's remaining ownership interest in SCPL. Borrowings were used for acquisitions, capital expenditures and normal operations.

Net cash inflows of \$57.6 million from financing activities for the six months ended June 30, 2013 were driven primarily by \$251.0 million in debt borrowings and \$57.8 million in proceeds from the issuance of limited partner units. A majority of the debt borrowings and all of the proceeds from the issuance of limited partner units were used for the acquisition of a 33% interest in SCPL. Offsetting the proceeds from the debt borrowings and limited partner unit issuance was a \$143.2 million reduction of partners' capital for the cash consideration in excess of the historical cost of the interest in SCPL, \$89.0 million in debt principal repayments and \$17.3 million in distributions to partners.

Senior Unsecured Notes

On June 27, 2014, Rose Rock and its wholly-owned subsidiary, Rose Rock Finance Corporation ("Finance Corp."), as co-issuer, agreed to sell \$400 million of 5.625% senior unsecured notes due 2022 (the "Notes") to certain initial purchasers for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to non-U.S. persons outside the United States pursuant to Regulation S of the Securities Act. The Notes are guaranteed by all of our existing subsidiaries other than Finance Corp.

The net proceeds from the offering of \$391.9 million, after underwriters' fees and offering expenses, were received on July 2, 2014. We used the net proceeds from the offering to repay amounts borrowed under our revolving credit facility and for general partnership purposes.

The Notes are governed by an indenture between the Partnership, its subsidiary guarantors, Finance Corp. and Wilmington Trust, National Association, as trustee (the "Indenture"). The Indenture includes customary covenants, including limitations on our ability to incur additional indebtedness or issue certain preferred shares; pay dividends and make certain distributions, investments and other restricted payments; create certain liens; sell assets; enter into transactions with affiliates; merge, consolidate, sell or otherwise dispose of all or substantially all of our assets; and designate our subsidiaries as unrestricted under the Indenture.

The Indenture includes customary events of default. A default would permit the trustee or holders of at least 25% in aggregate principal amounts of the Notes then outstanding to declare all amounts owing under the Notes to be due and payable.

The Notes are effectively subordinated in right of payment to any of our, and the subsidiary guarantors', existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness.

The Partnership may issue additional Notes under the Indenture from time to time, subject to the terms of the Indenture.

Except as described below, the Notes are not redeemable at the Partnership's option prior to July 15, 2017. From and after July 15, 2017, the Partnership may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if redeemed during the twelve-month period beginning on July 15 of each of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2017	104.219%
2018	102.813%
2019	101.406%
2020 and thereafter	100.000%

Prior to July 15, 2017, the Partnership may, at its option, on one or more occasions, redeem up to 35% of the sum of the original aggregate principal amount of the Notes at a redemption price equal to 105.625% of the aggregate principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of one or more equity offerings of the Partnership, or the parent of the Partnership to the extent such net proceeds are contributed to the Partnership, subject to certain conditions.

Prior to July 15, 2017, the Partnership may also redeem all or part of the Notes at a price equal to the principal plus a premium equal to the greater of 1% of the principal or the excess of the present value of the July 15, 2017 redemption price from the table above plus all required interest payments due through July 15, 2017, computed using a discount rate based on a published United States Treasury Rate plus 50 basis points, over the principal value of such Note.

In the event of a change of control, the Partnership is required to offer to repurchase the Notes at an amount equal to 101% of the principal plus accrued and unpaid interest.

The Notes are also subject to a Registration Rights Agreement which requires the Partnership to file a registration statement with the SEC and to use commercially reasonable efforts to consummate such exchange offer within one year of settlement date of the Notes so that holders of the Notes can exchange the Notes and related guarantees for registered notes (the "Exchange Notes") and guarantees that have substantially identical terms as the Notes and related guarantees. The guarantees of the Exchange Notes will be full and unconditional and will constitute the joint and several obligations of the subsidiary guarantors. Failure to meet the terms of the Registration Rights Agreement will require the Partnership to pay incremental interest of 0.25% per annum, increased by an additional 0.25% per annum for each 90-day period for which registration default continues (up to a maximum of 1.0% per annum).

Interest on the Notes is payable in arrears on January 15th and July 15th to holders of record on January 1st and July 1st each year until maturity. At June 30, 2014, we had \$8.7 million of unamortized debt issuance costs related to the Notes included in other noncurrent assets on our consolidated balance sheet.

At June 30, 2014, we were in compliance with the terms of the Notes.

Revolving Credit Facility

Our revolving credit facility has a capacity of \$585 million and includes a \$150 million sub-limit for letters of credit. The credit agreement permits the increase of the facility by not more than \$200 million, subject to certain conditions. The agreement allows the Partnership to incur unsecured or subordinated debt without limitation, subject to certain conditions. The credit agreement expires on September 20, 2018.

At our option, amounts borrowed under the credit agreement will bear interest at either the Eurodollar rate or an alternate base rate ("ABR"), plus, in each case, an applicable margin. The applicable margin will range from 1.75% to 3.00% in the case of a Eurodollar rate loan, and from 0.75% to 2.00% in the case of an ABR loan, in each case, based on a leverage ratio specified in the credit agreement. A commitment fee that ranges from 0.375% to 0.50%, depending on a leverage ratio specified in the credit agreement, is charged on any unused capacity of the revolving credit facility.

At June 30, 2014, we had outstanding cash borrowings of \$447.5 million, which incurred interest at ABR plus an applicable margin. The interest rate in effect at June 30, 2014, on ABR borrowings was 4.00%. On July 2, 2014, proceeds from the Notes were used to pay down the revolving credit facility balance.

At June 30, 2014, we had \$30.0 million in outstanding letters of credit and the rate per annum was 1.75%. In addition, a fronting fee of 0.25% is charged on outstanding letters of credit.

At June 30, 2014, we had \$54.6 million of secured bilateral letters of credit outstanding. The interest rate in effect was 1.75%. Secured bilateral letters of credit are external to the facility and do not reduce revolver availability.

The credit agreement contains representations and warranties and affirmative and negative covenants. The negative covenants limit or restrict our ability (as well as the ability of our Restricted Subsidiaries, as defined in the credit agreement) to:

- permit the ratio of our consolidated EBITDA to our consolidated cash interest expense at the end of any fiscal quarter, for the immediately preceding four quarter period, to be less than 2.50 to 1.00;

- permit the ratio of our consolidated net debt to our consolidated EBITDA at the end of any fiscal quarter, for the immediately preceding four quarter period, to be greater than 5.00 to 1.00 (or 5.50 to 1.00 during a temporary period from the date of funding of the purchase price of certain acquisitions (as described in the credit agreement) until the last day of the third fiscal quarter following such acquisitions);
- incur additional debt, subject to customary carve outs for certain permitted additional debt, incur certain liens on assets, subject to customary carve outs for certain permitted liens, or enter into certain sale and leaseback transactions;
- make investments in or make loans or advances to persons that are not Restricted Subsidiaries, subject to customary carve out for certain permitted investments, loans and advances;
- make certain cash distributions, provided that we may make distributions of available cash so long as no default under the credit agreement then exists or would result therefrom;
- dispose of assets in excess of an annual threshold amount;
- make certain amendments, modifications or supplements to organization documents, other material indebtedness documents and material contracts or enter into certain restrictive agreements or make certain payments on subordinated indebtedness;
- engage in business activities other than our business as described in the credit agreement, incidental or related thereto or a reasonable extension of the foregoing;
- enter into hedging agreements, subject to a customary carve out for agreements entered into in the ordinary course of business for non-speculative purposes;
- make changes to our fiscal year or other significant changes to our accounting treatment and reporting practices;
- engage in certain mergers or consolidations and transfers of assets; and
- enter into transactions with affiliates unless the terms are not less favorable, taken as a whole, than would be obtained in an arms-length transaction, subject to customary exceptions.

Upon the initial incurrence of at least \$200 million of unsecured debt in accordance with the credit agreement, we will have a one-time option to elect to comply with the ratio of our consolidated EBITDA to our consolidated cash interest expense and the ratio of our consolidated net debt to our consolidated EBITDA as detailed above or the following alternative covenants:

- a minimum ratio of our consolidated EBITDA to our consolidated cash interest expense at the end of any fiscal quarter, for the immediately preceding four quarter period, of 2.50 to 1.00;
- a maximum ratio of our consolidated net debt to our consolidated EBITDA at the end of any fiscal quarter, for the immediately preceding four quarter period, of 5.50 to 1.00; and
- and a maximum ratio of senior secured debt to our consolidated EBITDA of 3.50 to 1.00.

Subsequent to the issuance of the Notes, we elected to comply with the alternative covenants above.

The credit agreement defines events of default, including events of default relating to non-payment of principal and other amounts owing under the agreement from time to time, including in respect to letter of credit disbursement obligations, inaccuracy of representations and warranties in any material respect when made or when deemed made, violation of covenants, cross payments-defaults of us and our restricted subsidiaries to any material indebtedness, cross acceleration to any material indebtedness, bankruptcy and insolvency events, the occurrence of a change of control, certain unsatisfied judgments, certain ERISA events, certain environmental matters and certain assertions of or actual invalidity of certain loan documents. A default under the credit agreement would permit the participating banks to terminate commitments, require immediate repayment of any outstanding loans with interest and any unpaid accrued fees, and require the cash collateralization of outstanding letter of credit obligations.

The agreement is guaranteed by all of our material subsidiaries and secured by a lien on substantially all of our property and assets, subject to customary exceptions.

As of June 30, 2014, we were in compliance with our covenants under our credit agreement.

Shelf Registration Statement

We have an effective shelf registration statement with the SEC that, subject to market conditions and effectiveness at the time of use, allows us to issue up to an aggregate of \$500 million of debt or equity securities. In August 2013, we used this shelf registration statement to sell 4.750 million common units representing limited partner interests for proceeds of \$152.5 million, net of underwriting discounts and commissions of \$6.4 million. This shelf registration statement expires in May 2016.

Working Capital

Working capital is the amount by which current assets exceed current liabilities and is a measure of our ability to pay our liabilities as they become due. Our working capital was \$424.7 million and \$28.6 million at June 30, 2014 and December 31, 2013, respectively. Working capital at June 30, 2014 includes a \$391.9 million receivable for proceeds from the issuance of the Notes. These proceeds were received on July 2, 2014 and used to pay down the balance of our revolving credit facility.

Capital Requirements

The midstream energy business can be capital intensive, requiring significant investments for the maintenance of existing assets or acquisition or development of new systems and facilities. We categorize our capital expenditures as either:

- expansion related capital expenditures, which are cash expenditures incurred for acquisitions or capital improvements that we expect will increase our operating income or operating capacity over the long-term; or
- maintenance capital expenditures, which are cash expenditures (including expenditures for the addition or improvement to, or the replacement of, our capital assets or for the acquisition of existing, or the construction or development of new capital assets) made to maintain our long-term operating income or operating capacity.

During the six months ended June 30, 2014, we invested \$12.4 million (cash basis), on capital projects. Projected capital expenditures for 2014 include \$111 million for expansion projects including contributions to fund growth projects of equity method investees (excluding amounts to be funded by noncontrolling interests) and acquisitions from third parties and \$14 million in maintenance projects. The acquisition of the remaining interest in SCPL is excluded from total projected expenditures for 2014. During the six months ended June 30, 2014, we invested \$51.0 million in the expansion of the White Cliffs Pipeline. We expect to invest an additional \$2.3 million in 2014. During the six months ended June 30, 2014, we acquired crude oil trucking assets for \$44.0 million.

We anticipate that we will continue to make significant expansion capital expenditures in the future. Consequently, our ability to develop and maintain sources of funds to meet our capital requirements is critical to our ability to meet our growth objectives. We expect that our future expansion capital expenditures will be funded by cash from operations, borrowings under our credit facility and the issuance of debt and equity securities.

Distributions

The table below shows cash distributions declared or paid during 2013 and 2014:

Quarter Ended	Record Date	Payment Date	Distribution Per Unit
December 31, 2012	February 4, 2013	February 14, 2013	\$0.4025
March 31, 2013	May 6, 2013	May 15, 2013	\$0.4300
June 30, 2013	August 5, 2013	August 14, 2013	\$0.4400
September 30, 2013	November 5, 2013	November 14, 2013	\$0.4500
December 31, 2013	February 4, 2014	February 14, 2014	\$0.4650
March 31, 2014	May 5, 2014	May 15, 2014	\$0.4950
June 30, 2014	August 4, 2014	August 14, 2014	\$0.5350

Credit Risk

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. We examine the creditworthiness of third party customers to whom we extend credit and manage our exposure to credit risk through credit analysis, credit approval, credit limits and monitoring procedures, and for certain transactions, we may request letters of credit, prepayments or guarantees.

Customer Concentration

Shell Trading (US) Company and BP Oil Supply Company each accounted for more than 10% of our total revenue for the three months ended June 30, 2014 , at approximately 64% and 14% , respectively. Shell Trading (US) Company and BP Oil Supply Company each accounted for more than 10% of our total revenue for the six months ended June 30, 2014 , at approximately 59% and 13% , respectively. Although we have contracts with customers of varying durations, if one or more of our major customers were to default on their contract, or if we were unable to renew our contract with one or more of these customers on favorable terms, we might not be able to replace any of these customers in a timely fashion, on favorable terms or at all. In any of these situations, our revenues and our ability to make cash distributions to our unitholders may be adversely affected. We expect our exposure to risk of non-payment or non-performance to continue as long as we remain substantially dependent on a relatively small number of customers for a substantial portion of our revenue.

Purchase and Sale Commitments

For information regarding purchase and sales commitments, see the discussion under the caption "Purchase and sale commitments" in Note 6 of our condensed consolidated financial statements of this Form 10-Q, which information is incorporated by reference into this Item 2.

Letters of Credit

In connection with our purchasing activities, we provide certain suppliers and transporters with irrevocable standby and performance letters of credit to secure our obligation for the purchase of crude oil. Our liabilities with respect to these purchase obligations are recorded as accounts payable on our balance sheet in the month the crude oil is purchased. Generally, these letters of credit are issued for 50- to 70-day periods (with a maximum of a 364-day period) and are terminated upon completion of each transaction. At June 30, 2014 and December 31, 2013 , we had outstanding letters of credit of approximately \$84.6 million and \$95.8 million , respectively.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined by Item 303 of Regulation S-K.

Critical Accounting Policies and Estimates

For disclosure regarding our critical accounting policies and estimates, see the discussion under the caption "Critical Accounting Policies and Estimates" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013 .

Recent Accounting Pronouncements

See Note 1 to our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

This discussion on market risks represents an estimate of possible changes in future earnings that would occur assuming hypothetical future movements in commodity prices and interest rates. Our views on market risk are not necessarily indicative of actual results that may occur, and do not represent the maximum possible gains and losses that may occur since actual gains and losses will differ from those estimated, based on actual fluctuations in interest rates or commodity prices and the timing of transactions.

We are exposed to various market risks, including volatility in crude oil prices and interest rates. We have in the past used, and expect that in the future we will continue to use, various derivative instruments to manage exposure. Our risk management policies and procedures are designed to monitor physical and financial commodity positions and the resulting outright commodity price risk as well as basis risk resulting from differences in commodity grades, purchase and sales locations and purchase and sale timing. We have a risk management function that has responsibility and authority for our Comprehensive Risk Management Policy, which governs our enterprise-wide risks, including the market risks discussed in this item. Subject to our Comprehensive Risk Management Policy, our finance and treasury function has responsibility and authority for managing exposure to interest rates.

Commodity Price Risk

The table below outlines the range of NYMEX prompt month daily settle prices for crude oil futures provided by an independent, third-party broker for the three months and six months ended June 30, 2014 and 2013, and for the year ended December 31, 2013.

	Light Sweet Crude Oil Futures (\$ per Barrel)
Three Months Ended June 30, 2014	
High	\$107.26
Low	\$99.42
<i>High/Low Differential</i>	<i>\$7.84</i>
Three Months Ended June 30, 2013	
High	\$98.44
Low	\$86.68
<i>High/Low Differential</i>	<i>\$11.76</i>
Six Months Ended June 30, 2014	
High	\$107.26
Low	\$91.66
<i>High/Low Differential</i>	<i>\$15.60</i>
Six Months Ended June 30, 2013	
High	\$98.44
Low	\$86.68
<i>High/Low Differential</i>	<i>\$11.76</i>
Year Ended December 31, 2013	
High	\$110.53
Low	\$86.68
<i>High/Low Differential</i>	<i>\$23.85</i>

Revenue from our asset-based activities is dependent on throughput volume, tariff rates, the level of fees generated from our pipeline systems, capacity contracted to third parties, capacity that we use for our own operational or marketing activities and the level of other fees generated at our storage facilities and from our trucking operations. Profit from our marketing

activities is dependent on our ability to sell crude oil at prices in excess of our aggregate cost. Margins may be affected during transitional periods between a backwardated market (when the prices for future deliveries are lower than the current prices) and a contango market (when the prices for future deliveries are higher than the current prices). Our crude oil marketing activities are generally not directly affected by the absolute level of crude oil prices, but are affected by overall levels of supply and demand for crude oil and relative fluctuations in market-related indices at various locations.

Based on our open derivative contracts at June 30, 2014, an increase in the applicable market price or prices for each derivative contract would result in a decrease in the contribution from these derivatives to our crude oil sales revenues. A decrease in the applicable market price or prices for each derivative contract would result in an increase in the contribution from these derivatives to our crude oil sales revenues. However, the increases or decreases in crude oil sales revenues we recognize from our open derivative contracts are substantially offset by higher or lower crude oil sales revenues when the physical sale of the product occurs. These contracts may be for the purchase or sale of crude oil or in markets different from the physical markets in which we are attempting to hedge our exposure, or may have timing differences relative to the physical markets. As a result of these factors, our hedges may not eliminate all price risks.

The notional volumes and fair value of our commodity derivatives open positions as of June 30, 2014, as well as the change in fair value that would be expected from a 10% market price increase or decrease, is shown in the table below (in thousands):

	Notional Volume (Barrels)	Fair Value	Effect of 10% Price Increase	Effect of 10% Price Decrease	Settlement Date
Crude oil:					
Futures contracts	355	\$ 185	\$ (3,741)	\$ 3,741	July 2014

Margin deposits or other credit support, including letters of credit, are generally required on derivative instruments used to manage our price exposure. As commodity prices increase or decrease, the fair value of our derivative instruments changes, thereby increasing or decreasing our margin deposit or other credit support requirements. Although a component of our risk-management strategy is intended to manage the margin and other credit support requirements on our derivative instruments, volatile spot and forward commodity prices, or an expectation of increased commodity price volatility, could increase the cash needed to manage our commodity price exposure and thereby increase our liquidity requirements. This may limit amounts available to us through borrowing, decrease the volume of petroleum products we purchase and sell or limit our commodity price management activities.

Interest Rate Risk

We have exposure to changes in interest rates under our revolving credit facility. The credit markets have recently experienced very low interest rates. If the overall economy strengthens, it is likely that monetary policy will tighten, resulting in higher interest rates to counter possible inflation. Interest rates on our floating rate revolving credit facility and future debt offerings could be higher than current levels, causing our financing costs to increase accordingly.

We recorded interest expense related to our revolving credit facility of \$2.6 million during the three months ended June 30, 2014. An increase in interest rates of 1% for the three months ended June 30, 2014 would have increased our interest expense by \$0.8 million. We recorded interest expense related to our revolving credit facility of \$4.9 million during the six months ended June 30, 2014. An increase in interest rates of 1% for the six months ended June 30, 2014 would have increased our interest expense by \$1.4 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of our general partner have concluded that the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) are effective as of June 30, 2014 . This conclusion is based on an evaluation conducted under the supervision and participation of the Chief Executive Officer and Chief Financial Officer of our general partner along with our management. Disclosure controls and procedures are those controls and procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer of our general partner, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the most recently completed fiscal quarter ended June 30, 2014 , that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal proceedings, see the discussion under the captions “Bankruptcy matters,” “Other matters,” “Environmental,” and “Blueknight claim” in Note 6 of our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, which information is incorporated by reference into this Item 1.

Item 1A. Risk Factors

There have been no material changes to the risk factors involving us from those previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 .

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

For information on unregistered sales of equity securities and use of proceeds, see our current report on Form 8-K filed with the SEC on June 23, 2014.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed or furnished as part of this Quarterly Report on Form 10-Q:

<u>Exhibit Number</u>	<u>Description</u>
2.1	Contribution Agreement, dated as of June 23, 2014, by and among SemGroup Corporation, Rose Rock Midstream Holdings, LLC, Rose Rock Midstream GP, LLC, Rose Rock Midstream, L.P. and Rose Rock Midstream Operating, LLC. (filed as Exhibit 2.1 to the Registrant's current report on Form 8-K (File No. 001-35365), filed with the Commission on June 23, 2014, and incorporated by reference herein).
4.1	Indenture (and form of 5.625% Senior Note due 2022 attached at Exhibit 1 thereto), dated as of July 2, 2014, by and among Rose Rock Midstream, L.P., Rose Rock Finance Corporation, the Guarantors party thereto and Wilmington Trust, National Association, as Trustee (filed as Exhibit 4.1 to the Registrant's current report on Form 8-K (File No. 001-35365), filed with the Commission on July 2, 2014, and incorporated by reference herein).
4.2	Registration Rights Agreement, dated as of July 2, 2014, by and among Rose Rock Midstream, L.P., Rose Rock Finance Corporation, the Guarantors signatory thereto and Deutsche Bank Securities Inc., as representative of the several initial purchasers (filed as Exhibit 4.3 to the Registrant's current report on Form 8-K (File No. 001-35365), filed with the Commission on July 2, 2014, and incorporated by reference herein).
10.1	Purchase Agreement, dated June 27, 2014, by and among Rose Rock Midstream, L.P., Rose Rock Finance Corporation, the guarantors party thereto and Deutsche Bank Securities Inc., as representative of the initial purchasers named therein (filed as Exhibit 1.1 to Registrant's current report on Form 8-K (File No. 001-35365), filed with the Commission on July 2, 2014, and incorporated by reference herein).
10.2	Board of Directors Compensation Plan.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Carlin G. Conner, Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Robert N. Fitzgerald, Chief Financial Officer.
32.1	Section 1350 Certification of Carlin G. Conner, Chief Executive Officer.
32.2	Section 1350 Certification of Robert N. Fitzgerald, Chief Financial Officer.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURE

Pursuant to the requirements 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.

Date: August 8, 2014

ROSE ROCK MIDSTREAM, L.P.

By: Rose Rock Midstream GP, LLC, its general partner

/s/ Robert N. Fitzgerald

Robert N. Fitzgerald
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

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ROSE ROCK MIDSTREAM GP, LLC

Board of Directors Compensation Plan *Effective December 1, 2014*

Total annual compensation for the non-executive Board members of Rose Rock Midstream GP, LLC will be paid both in a cash retainer and in equity of Rose Rock Midstream, L.P.

	Total Compensation ¹	Annual Cash Retainer	Annual Equity Grant ²
Members - Board Only	\$150,000	\$75,000	\$75,000
Chairman - Audit Committee	\$165,000	\$90,000	\$75,000
Chairman - Conflicts Committee	\$162,500	\$87,500	\$75,000

- A. Board members will receive equity as restricted units which shall fully vest on the first anniversary date of the grant.
- B. Board members must retain 100% of all units awarded under this plan until a minimum ownership level of vested units equal in value to 4x's the Annual Cash Retainer for Members - Board Only as set forth above has been achieved; provided, however, (i) that Board members will be able to sell units to cover tax liability associated with vesting of restricted units and (ii) that vested units can be transferred: (1) to his or her revocable grantor trust in which such Director is the sole primary beneficiary; (2) to a trust maintained for the benefit of the spouse or minor child of the Director of which the Director serves as trustee; and (3) to the spouse of the director to be held in common ownership with such Director.
- C. Each Board member shall receive the highest Total Compensation he or she is entitled to pursuant to the above table. No Board member shall be entitled to compensation from more than one row of the table set forth above.
- D. The number of restricted units received shall be determined by dividing the dollar amount of the grant by the value of a common unit on the date the grant is made.
- E. Board members will receive their annual cash compensation and equity awards in advance for each plan year, which shall commence on (December 1) of each year. Cash compensation and equity awards shall be pro-rated for any Director whose service commences after (December 1).

¹Total compensation is the sum of the cash and equity retainers paid on an annual basis.

²All equity grants will be made under the Rose Rock Midstream Equity Incentive Plan.

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlin G. Conner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rose Rock Midstream, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ Carlin G. Conner

Carlin G. Conner

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert N. Fitzgerald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rose Rock Midstream, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ Robert N. Fitzgerald

Robert N. Fitzgerald

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Rose Rock Midstream, L.P. (the “Company”) on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Carlin G. Conner, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2014

/s/ Carlin G. Conner

Carlin G. Conner

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Rose Rock Midstream, L.P. (the “Company”) on Form 10-Q for the quarter ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert N. Fitzgerald, Senior Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2014

/s/ Robert N. Fitzgerald

Robert N. Fitzgerald
Senior Vice President and
Chief Financial Officer