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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 September 30, 2020

OR

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

Commission File Number 001-38919

Rattler Midstream LP
(Exact Name of Registrant As Specified in Its Charter)

DE	**83-1404608**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
500 West Texas Suite 1200 Midland, TX	**79701**
(Address of principal executive offices)	**(Zip code)**

(432) 221-7400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Units	RTLR	The Nasdaq Stock Market LLC (NASDAQ Global Select Market)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller Reporting Company	☐
		Emerging Growth Company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

As of October 30, 2020, the registrant had outstanding 44,006,637 common units representing limited partner interests and 107,815,152 Class B units representing limited partner interests.

RATTLER MIDSTREAM LP

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2020

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GLOSSARY OF OIL AND NATURAL GAS TERMS

The following is a glossary of certain oil and natural gas industry terms used in this Quarterly Report on Form 10-Q (this "report"):

Basin	A large depression on the earth's surface in which sediments accumulate.
Bbl or barrel	One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to crude oil, natural gas liquids or other liquid hydrocarbons.
Bbl/d	Bbl per day.
British Thermal Unit or Btu	The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Completion	The process of treating a drilled well, followed by the installation of permanent equipment for the production of natural gas or oil or, in the case of a dry hole, the reporting of abandonment to the appropriate agency.
Crude oil	Liquid hydrocarbons found in the earth, which may be refined into fuel sources.
Dry hole or dry well	A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.
Field	The general area encompassed by one or more crude oil or natural gas reservoirs or pools that are located on a single geologic feature, or that are otherwise closely related to such geologic feature (either structural or stratigraphic).
Hydraulic fracturing	The process of creating and preserving a fracture or system of fractures in a reservoir rock, typically by injecting a fluid under pressure through a wellbore and into the targeted formation.
Hydrocarbon	An organic compound containing only carbon and hydrogen.
Mcf	One thousand cubic feet of natural gas.
Mcf/d	One thousand cubic feet of natural gas per day.
MMBtu	One million British Thermal Units.
MMBtu/d	One million British Thermal Units per day.
Natural gas	Hydrocarbon gas found in the earth, composed of methane, ethane, butane, propane and other gases.
Operator	The individual or company responsible for the exploration and/or production of a crude oil or natural gas well or lease.
Plugging and abandonment	Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.
Reserves	Estimated remaining quantities of crude oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering crude oil and natural gas or related substances to the market and all permits and financing required to implement the project. Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., potentially recoverable resources from undiscovered accumulations).
Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or crude oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.
Throughput	The volume of product transported or passing through a pipeline, plant, terminal or other facility.

GLOSSARY OF CERTAIN OTHER TERMS

The following is a glossary of certain other terms used in this report:

Diamondback	Diamondback Energy, Inc., a Delaware corporation, and its subsidiaries other than the Partnership and its subsidiaries (including the Operating Company).
Exchange Act	The Securities Exchange Act of 1934, as amended.
GAAP	Accounting principles generally accepted in the United States.
General Partner	Rattler Midstream GP LLC, a Delaware limited liability company; the general partner of the Partnership and a wholly owned subsidiary of Diamondback.
IPO	The Partnership’s initial public offering.
LTIP	Rattler Midstream LP Long Term Incentive Plan.
Nasdaq	The Nasdaq Global Select Market.
Operating Company	Rattler Midstream Operating LLC, a Delaware limited liability company and a consolidated subsidiary of the Partnership.
Partnership	Rattler Midstream LP, a Delaware limited partnership.
Partnership agreement	The first amended and restated agreement of limited partnership, dated May 28, 2019.
Predecessor	The Operating Company, prior to May 28, 2019 for accounting purposes.
SEC	Securities and Exchange Commission.
Securities Act	The Securities Act of 1933, as amended.
Wells Fargo	Wells Fargo Bank, National Association.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "may," "continue," "predict," "potential," "project," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed in this report and our Annual Report on Form 10-K for the year ended December 31, 2019 could affect our actual results and cause our actual results to differ materially from expectations, estimates or assumptions expressed, forecasted or implied in such forward-looking statements. Unless the context requires otherwise, references to "we," "us," "our" or the "Partnership" are intended to mean the business and operations of the Partnership and its consolidated subsidiaries.

Forward-looking statements may include statements about:

- Diamondback's ability to meet its drilling and development plans on a timely basis or at all;
- the volatility of realized oil and natural gas prices, including in Diamondback's area of operation in the Permian Basin, and the extent and duration of price reductions and increased production by the Organization of the Petroleum Exporting Countries, or OPEC, members and other oil exporting nations;
- the threat, occurrence, potential duration or other implications of epidemic or pandemic diseases, including the ongoing COVID-19 pandemic, or any government responses to such threat, occurrence or pandemic;
- logistical challenges and supply chain disruptions during the ongoing COVID-19 pandemic;
- changes in general economic, business or industry conditions;
- conditions in the capital, financial and credit markets;
- competitive conditions in our industry and the effect of U.S. energy, monetary and trade policies;
- U.S. and global economic conditions and political and economic developments, including the outcome of the recent U.S. presidential election and resulting energy and environmental policies;
- actions taken by third party operators, gatherers, processors and transporters;
- the demand for and costs of conducting midstream infrastructure services;
- our ability to successfully implement our business plan;
- our ability to complete internal growth projects on time and on budget;
- our ability to identify, complete and effectively integrate acquisitions into our operations;
- our ability to achieve anticipated synergies, system optionality and accretion associated with acquisitions;
- the impact of potential impairment charges;
- the results of our investments in joint ventures;
- the availability and price of crude oil and natural gas to the consumer compared to the price of alternative and competing fuels;
- competition from the same and alternative energy sources;

- energy efficiency and technology trends;
- operating hazards and other risks incidental to our midstream services;
- natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- defaults by Diamondback under our commercial agreements;
- our lack of asset and geographic diversification;
- increases in our tax liability;
- the effect of existing and future laws and government regulations;
- civil unrest, terrorist attacks or cyber threats;
- the effects of future litigation; and
- certain other factors discussed elsewhere in this report.

All forward-looking statements speak only as of the date of this report or, if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities laws. You should not place undue reliance on these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Rattler Midstream LP
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands)	
Assets		
Current assets:		
Cash	$ 16,576	$ 10,633
Accounts receivable—related party	39,560	50,270
Accounts receivable—third party, net	8,138	9,071
Sourced water inventory	9,678	14,325
Other current assets	171	1,428
Total current assets	74,123	85,727
Property, plant and equipment:		
Land	85,826	86,072
Property, plant and equipment	1,026,212	930,768
Accumulated depreciation, amortization and accretion	(90,456)	(61,132)
Property, plant and equipment, net	1,021,582	955,708
Right of use assets	738	418
Equity method investments	532,008	479,558
Real estate assets, net	97,815	101,116
Intangible lease assets, net	5,745	8,070
Deferred tax asset	75,255	—
Other assets	4,977	5,796
Total assets	$ 1,812,243	$ 1,636,393

See accompanying notes to condensed consolidated financial statements.

Rattler Midstream LP
Condensed Consolidated Balance Sheets - Continued
(Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands, except unit amounts)	
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable	$ 263	$ 147
Accrued liabilities	37,265	76,625
Taxes payable	406	189
Short-term lease liability	679	418
Total current liabilities	38,613	77,379
Long-term debt	575,454	424,000
Asset retirement obligations	14,567	11,347
Long-term lease liability	59	—
Deferred income taxes	—	7,827
Total liabilities	628,693	520,553
Commitments and contingencies (Note 15)		
Unitholders' equity:		
General partner—Diamondback	919	979
Common units—public (43,996,243 units issued and outstanding as of September 30, 2020 and 43,700,000 units issued and outstanding as of December 31, 2019)	399,080	737,777
Class B units—Diamondback (107,815,152 units issued and outstanding as of September 30, 2020 and as of December 31, 2019)	919	979
Accumulated other comprehensive income (loss)	(223)	(198)
Total Rattler Midstream LP unitholders' equity	400,695	739,537
Non-controlling interest	783,550	376,928
Non-controlling interest in accumulated other comprehensive loss	(695)	(625)
Total equity	1,183,550	1,115,840
Total liabilities and unitholders' equity	$ 1,812,243	$ 1,636,393

See accompanying notes to condensed consolidated financial statements.

Rattler Midstream LP
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands, expect per unit amounts)			
Revenues:				
Revenues—related party	$ 85,846	$ 104,866	$ 280,460	$ 296,508
Revenues—third party	7,229	6,840	23,504	15,405
Rental income—related party	2,282	1,399	5,101	3,370
Rental income—third party	867	1,894	4,653	5,999
Other real estate income—related party	149	111	318	265
Other real estate income—third party	166	305	633	818
Total revenues	96,539	115,415	314,669	322,365
Costs and expenses:				
Direct operating expenses	31,173	29,789	101,425	76,381
Cost of goods sold (exclusive of depreciation and amortization)	6,663	17,350	27,368	46,252
Real estate operating expenses	494	742	1,812	1,963
Depreciation, amortization and accretion	10,990	11,736	35,596	31,798
General and administrative expenses	3,140	3,240	11,829	7,677
(Gain) loss on disposal of property, plant and equipment	(16)	—	2,765	(4)
Total costs and expenses	52,444	62,857	180,795	164,067
Income (loss) from operations	44,095	52,558	133,874	158,298
Other income (expense):				
Interest income (expense), net	(5,817)	(553)	(10,364)	(638)
Income (loss) from equity method investments	3,369	(631)	(9,910)	(695)
Total other income (expense), net	(2,448)	(1,184)	(20,274)	(1,333)
Net income (loss) before income taxes	41,647	51,374	113,600	156,965
Provision for (benefit from) income taxes	2,851	3,294	7,754	22,850
Net income (loss)	38,796	48,080	105,846	134,115
Less: Net income (loss) before initial public offering	—	—	—	65,995
Net income (loss) subsequent to initial public offering	—	—	—	68,120
Less: Net income (loss) attributable to non-controlling interest	29,578	36,549	80,775	51,786
Net income (loss) attributable to Rattler Midstream LP	$ 9,218	$ 11,531	$ 25,071	$ 16,334
Net income (loss) attributable to limited partners per common unit:				
Basic	$ 0.20	$ 0.26	$ 0.53	$ 0.37
Diluted	$ 0.20	$ 0.26	$ 0.53	$ 0.37
Weighted average number of limited partner common units outstanding:				
Basic	43,996	43,700	43,837	43,564
Diluted	43,996	44,836	43,837	44,710

See accompanying notes to condensed consolidated financial statements.

Rattler Midstream LP
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Net income (loss)	$ 38,796	$ 48,080	$ 105,846	$ 134,115
Other comprehensive income (loss):				
Change in accumulated other comprehensive income (loss) of equity method investees attributable to non-controlling interest	306	—	(70)	—
Change in accumulated other comprehensive income (loss) of equity method investees attributable to limited partner	97	—	(25)	—
Total other comprehensive income (loss)	403	—	(95)	—
Comprehensive income (loss)	$ 39,199	$ 48,080	$ 105,751	$ 134,115

See accompanying notes to condensed consolidated financial statements.

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Rattler Midstream LP
Condensed Consolidated Statements of Changes in Unitholders' Equity
(Unaudited)

	Partnership								
	Limited Partners				General Partner	Non-Controlling Interest	Accumulated Other Comprehensive Income	Non-Controlling Interest-Accumulated Other Comprehensive Income	
	Common Units	Amount	Class B Units	Amount	Amount	Amount	Amount	Amount	Total
	(In thousands)								
Balance at December 31, 2019	43,700	$ 737,777	107,815	$ 979	$ 979	$ 376,928	$ (198)	$ (625)	$ 1,115,840
Unit-based compensation	—	2,219	—	—	—	—	—	—	2,219
Distribution equivalent rights payments	—	(652)	—	—	—	—	—	—	(652)
Other comprehensive income (loss)	—	—	—	—	—	—	(63)	(195)	(258)
Distributions	—	(12,673)	—	(20)	(20)	(31,266)	—	—	(43,979)
Net income (loss)	—	13,031	—	—	—	41,557	—	—	54,588
Balance at March 31, 2020	43,700	739,702	107,815	959	959	387,219	(261)	(820)	1,127,758
Unit-based compensation	450	2,120	—	—	—	—	—	—	2,120
Distribution equivalent rights payments	—	(644)	—	—	—	—	—	—	(644)
Other comprehensive income (loss)	—	—	—	—	—	—	(59)	(181)	(240)
Distributions	—	(12,673)	—	(20)	(20)	(31,267)	—	—	(43,980)
Change in ownership of consolidated subsidiaries, net	—	(329,034)	—	—	—	419,647	—	—	90,613
Units repurchased for tax withholding	(154)	(1,365)	—	—	—	—	—	—	(1,365)
Net income (loss)	—	2,822	—	—	—	9,640	—	—	12,462
Balance at June 30, 2020	43,996	400,928	107,815	939	939	785,239	(320)	(1,001)	1,186,724
Unit-based compensation	—	2,216	—	—	—	—	—	—	2,216
Distribution equivalent rights payments	—	(524)	—	—	—	—	—	—	(524)
Other comprehensive income (loss)	—	—	—	—	—	—	97	306	403
Distributions	—	(12,758)	—	(20)	(20)	(31,267)	—	—	(44,065)
Net income (loss)	—	9,218	—	—	—	29,578	—	—	38,796
Balance at September 30, 2020	43,996	$ 399,080	107,815	$ 919	$ 919	$ 783,550	$ (223)	$ (695)	$ 1,183,550

See accompanying notes to condensed consolidated financial statements.

Rattler Midstream LP
Condensed Consolidated Statements of Changes in Unitholders' Equity - Continued
(Unaudited)

	Predecessor	Partnership						
	Limited Partners Member's Equity	Limited Partners				General Partner	Non-Controlling Interest	
	Amount	Common Units	Amount	Class B Units	Amount	Amount	Amount	Total
				(In thousands)				
Balance at December 31, 2018*	$ 527,125	—	$ —	—	$ 1	$ —	$ —	$ 527,126
Contributions from Diamondback	458,674	—	—	—	—	—	—	458,674
Net income	39,356	—	—	—	—	—	—	39,356
Balance at March 31, 2019	1,025,155	—	—	—	1	—	—	1,025,156
Net income prior to the offering	26,639	—	—	—	—	—	—	26,639
Distributions prior to the offering	(33,712)	—	—	—	—	—	—	(33,712)
Balance at May 28, 2019	1,018,082	—	—	—	1	—	—	1,018,083
Net proceeds from the offering - public	—	43,700	719,627	—	—	—	—	719,627
Net proceeds from the offering - General Partner	—	—	—	—	—	1,000	—	1,000
Net proceeds from the offering - Diamondback	—	—	—	107,815	999	—	—	999
Unit-based compensation	—	—	831	—	—	—	—	831
Elimination of current and deferred tax liabilities	31,094	—	—	—	—	—	—	31,094
Allocation of net investment to unitholder	(322,663)	—	—	—	—	—	322,663	—
Distributions to Diamondback (Note 1)	(726,513)	—	—	—	—	—	—	(726,513)
Net income subsequent to the offering	—	—	4,803	—	—	—	15,237	20,040
Balance at June 30, 2019	—	43,700	725,261	107,815	1,000	1,000	337,900	1,065,161
Net proceeds from the offering - public	—	—	(251)	—	—	—	—	(251)
Unit-based compensation	—	—	2,158	—	—	—	—	2,158
Net income (loss)	—	—	11,531	—	—	—	36,549	48,080
Balance at September 30, 2019	$ —	43,700	$ 738,699	107,815	$ 1,000	$ 1,000	$ 374,449	$ 1,115,148

See accompanying notes to condensed consolidated financial statements.
*See Note 1 for information regarding the basis of financial statement presentation.

Rattler Midstream LP
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 105,846	$ 134,115
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	7,754	22,850
Depreciation, amortization and accretion	35,596	31,798
Amortization of debt issuance costs	467	—
(Gain) loss on disposal of property, plant and equipment	2,765	(4)
Unit-based compensation expense	6,555	2,989
(Income) loss from equity method investments	9,910	695
Changes in operating assets and liabilities:		
Accounts receivable—related party	1,649	(45,297)
Accounts receivable—third party	(314)	(1,045)
Accounts payable, accrued liabilities and taxes payable	117	30,791
Other	7,029	(13,028)
Net cash provided by (used in) operating activities	177,374	163,864
Cash flows from investing activities:		
Additions to property, plant and equipment	(124,989)	(187,544)
Contributions to equity method investments	(89,751)	(76,141)
Distributions from equity method investments	27,490	—
Proceeds from the sale of fixed assets	42	18
Net cash provided by (used in) investing activities	(187,208)	(263,667)
Cash flows from financing activities:		
Proceeds from senior notes	500,000	—
Proceeds from borrowings from credit facility	179,000	112,000
Payments on credit facility	(518,000)	(9,000)
Distribution equivalent rights	(1,820)	—
Debt issuance costs	(10,014)	(3,929)
Net proceeds from initial public offering—public	—	719,376
Net proceeds from initial public offering—General Partner	—	1,000
Net proceeds from initial public offering—Diamondback	—	999
Units repurchased for tax withholding	(1,365)	—
Distribution to General Partner (Note 1)	(60)	—
Distribution to public (Note 1)	(38,104)	—
Distribution to Diamondback (Note 1)	(93,860)	(726,513)
Net cash provided by (used in) financing activities	15,777	93,933
Net increase (decrease) in cash	5,943	(5,870)
Cash at beginning of period	10,633	8,564
Cash at end of period	$ 16,576	$ 2,694
Supplemental disclosure of non-cash financing activity:		
Contributions from Diamondback	$ —	$ 456,055
Supplemental disclosure of non-cash investing activity:		
Increase in long term assets and inventory due to contributions from Diamondback	$ —	$ 456,055
Accounts payable related to capital expenditures	$ 13,689	$ 57,002

See accompanying notes to condensed consolidated financial statements.

Rattler Midstream LP
Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Rattler Midstream LP (the "Partnership" and, prior to May 28, 2019 for accounting purposes, the "Predecessor") is a publicly traded Delaware limited partnership. The Partnership was formed on July 27, 2018 by Diamondback Energy, Inc. ("Diamondback") to, among other things, own, operate, develop and acquire midstream infrastructure assets in the Midland and Delaware Basins of the Permian Basin.

The Predecessor's assets, contributed from Diamondback, included (i) crude oil and natural gas gathering and transportation systems, (ii) produced water gathering and disposal systems, (iii) water sourcing and distribution systems and (iv) certain real property and related assets. All of the Partnership's businesses are located or operate in the Permian Basin in West Texas.

Prior to the closing on May 28, 2019 of the IPO, Diamondback owned all of the general and limited partner interests in the Predecessor. In connection with the IPO, the Partnership (i) issued 43,700,000 common units to the public at a price of $17.50 per common unit, representing a 29% voting limited partner interest in the Partnership, for net proceeds of approximately $719.4 million, (ii) issued 107,815,152 Class B units, representing an aggregate 71% voting limited partner interest in the Partnership, in exchange for a $1.0 million cash contribution from Diamondback, (iii) issued a general partner interest in the Partnership to Rattler Midstream GP LLC (the "General Partner") in exchange for a $1.0 million cash contribution from the General Partner and (iv) caused Rattler Midstream Operating LLC (the "Operating Company") to make a distribution of approximately $726.5 million to Diamondback. Diamondback, as the holder of the Class B units, and the General Partner, as the holder of the general partner interest, are entitled to receive cash preferred distributions equal to 8% per annum on the outstanding amount of their respective $1.0 million capital contributions, payable quarterly.

As of September 30, 2020, the General Partner held a 100% general partner interest in the Partnership. Diamondback owns all of the Partnership's 107,815,152 Class B units that provide a 71% voting interest. Diamondback owns and controls the General Partner.

As of September 30, 2020, the Partnership owned a 29% controlling membership interest in the Operating Company and Diamondback owned, through its ownership of the Operating Company units, a 71% economic, non-voting interest in the Operating Company. However, as required by GAAP, the Partnership consolidates 100% of the assets and operations of the Operating Company in its financial statements and reflects a non-controlling interest attributable to Diamondback. In addition to the Operating Company, other consolidated subsidiaries of the Partnership include Tall City Towers LLC ("Tall Towers"), Rattler Ajax Processing LLC and Rattler OMOG LLC.

The Partnership also owns indirect interests in Amarillo Rattler, LLC, OMOG JV LLC ("OMOG"), EPIC Crude Holdings, LP ("EPIC"), EPIC Crude Holdings GP, LLC, Wink to Webster Pipeline LLC ("Wink to Webster") and Gray Oak Pipeline, LLC ("Gray Oak"), which are accounted for as equity method investments as discussed further in Note 7— Equity Method Investments.

Basis of Presentation

The consolidated results of operations following the completion of the IPO are presented together with the results of operations pertaining to the Predecessor. The assets of the Predecessor consist of produced water disposal wells and related gathering systems, office buildings, surface land, an oil gathering system and asset retirement obligations related to these assets, which were contributed effective January 1, 2019. See Note 4—Acquisitions. The capital contribution of the net proceeds from the IPO to the Operating Company in exchange for 29% of the limited liability company units of the Operating Company was accounted for as a combination of entities under common control, with assets and liabilities transferred at their carrying amounts in a manner similar to a pooling of interests. The Partnership did not own any assets prior to May 28, 2019, the date of the equity contribution agreement by and between the Partnership and the Predecessor. Prior to the IPO, the Predecessor was a wholly owned subsidiary of Diamondback.

For periods prior to May 28, 2019, the accompanying condensed consolidated financial statements and related notes thereto represent the financial position, results of operations, cash flows and changes in members' equity of the Predecessor and, for periods on and after May 28, 2019, the accompanying condensed consolidated financial statements and related notes thereto represent the financial position, results of operations, cash flows and changes in partners' equity of the Partnership and its partially owned subsidiary. The Predecessor financial statements have been prepared from the separate records maintained by the Partnership and may not necessarily be indicative of the actual results of operations that might have occurred if the Predecessor had been operated separately during the periods reported.

The accompanying condensed consolidated financial statements and related notes thereto were prepared in accordance with GAAP. All significant intercompany balances and transactions have been eliminated upon consolidation.

These condensed consolidated financial statements have been prepared by the Partnership without audit, pursuant to the rules and regulations of the SEC. They reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to SEC rules and regulations, although the Partnership believes the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10–Q should be read in conjunction with the Partnership's most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which contains a summary of the Partnership's significant accounting policies and other disclosures.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period financial statement presentation. These reclassifications had no effect on the previously reported total assets, total liabilities, unitholders' equity, results of operations or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Certain amounts included in or affecting the Partnership's financial statements and related notes must be estimated by management, requiring certain assumptions to be made with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. These estimates and assumptions affect the amounts the Partnership reports for assets and liabilities and the Partnership's disclosure of contingent assets and liabilities at the date of the financial statements.

Making accurate estimates and assumptions is particularly difficult as the oil and natural gas industry experiences challenges resulting from negative pricing pressure from the effects of COVID-19 and actions by OPEC members and other exporting nations affecting the supply and demand in global oil and natural gas markets. Many companies in the oil and natural gas industry have changed near term business plans in response to changing market conditions. The aforementioned circumstances generally increase the uncertainty in the Partnership's accounting estimates, particularly those involving financial forecasts.

The Partnership evaluates these estimates on an ongoing basis, using historical experience, consultation with experts and other methods it considers reasonable in each particular circumstance. Nevertheless, actual results may differ significantly from the Partnership's estimates. Any effects on the Partnership's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. Significant items subject to such estimates and assumptions include, but are not limited to, (i) revenue accruals, (ii) the fair value of long-lived assets and (iii) asset retirement obligations ("ARO").

Accounts Receivable

Accounts receivable consist primarily of receivables from gathering services, sourced water and rental agreements. The customers and lessees remit payment for services performed and/or goods received directly to the Partnership. Most payments for gathering services, sourced water and rental agreements are received within two months after the date of service performed or goods delivered.

The Partnership adopted Accounting Standards Update ("ASU") 2016-13 and the subsequent applicable modifications to the rule on January 1, 2020. Accounts receivable are stated at amounts due from customers and lessees, net of an allowance for expected losses as estimated by the Partnership when collection is deemed doubtful. Accounts receivable outstanding longer than the contractual payment terms are considered past due. The Partnership determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Partnership's previous loss history, the debtor's current ability to pay its obligation to the Partnership, the condition of the general economy and the industry as a whole. The Partnership writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for expected losses. As the adoption of ASU 2016-13 did not result in a material allowance, no cumulative-effect adjustment was made to beginning unitholders' equity. At September 30, 2020, the Partnership recorded an immaterial allowance for expected losses and did not record an allowance for expected losses at December 31, 2019.

Accrued Liabilities

Accrued liabilities consist of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
	(In thousands)	
Capital expenditures accrued	$ 9,213	$ 42,160
Direct operating expenses accrued	19,638	22,119
Sourced water purchases accrued	2,524	9,531
Interest expense accrued	5,866	627
Other	24	2,188
Total accrued liabilities	$ 37,265	$ 76,625

Accumulated Other Comprehensive Income

The following table provides changes in the components of accumulated other comprehensive income, net of related income tax effects:

	(In thousands)
Balance as of December 31, 2019	$ (823)
Other comprehensive income (loss)	(95)
Balance as of September 30, 2020	$ (918)

Non-controlling Interest

Non-controlling interest in the accompanying condensed consolidated financial statements represents Diamondback's ownership in the net assets of the Operating Company. When Diamondback's relative ownership interest in the Operating Company changes, adjustments to non-controlling interest and common unitholder's equity, tax effected, will occur. If the changes in the Partnership's ownership interest in the Operating Company do not result in a change of control, the transactions are accounted for as equity transactions under Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 810, "Consolidation." This guidance requires that any differences between the carrying value of the Partnership's basis in the Operating Company and the fair value of the consideration received are recognized directly in equity and attributed to the controlling interest.

In the second quarter of 2020, the Partnership recorded an adjustment to non-controlling interest of $419.6 million, common unitholder equity of $(329.0) million, and deferred tax asset of $90.6 million to reflect the ownership structure that was effective at June 30, 2020. The adjustment had no impact on earnings for the nine months ended September 30, 2020. See Note 10—Unitholders' Equity and Partnership Distributions for a presentation of the change in ownership.

Income Taxes

The Partnership is treated as a corporation for U.S. federal income tax purposes as a result of its election to be treated as a corporation effective May 24, 2019. Subsequent to the effective date of the Partnership's election, it has been subject to U.S. federal and state income tax at corporate rates. The Partnership uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and (ii) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized.

The Partnership is subject to margin tax in the state of Texas pursuant to the tax sharing agreement with Diamondback. In addition to the Partnership's 2019 tax year, the Predecessor's 2016 through 2018 tax years, the periods during which the Predecessor's sole owner, Diamondback, was responsible for federal income taxes on the Predecessor's taxable income, remain open to examination by tax authorities. As of September 30, 2020, the Partnership had no unrecognized tax benefits that would have a material impact on the effective tax rate. The Partnership is continuing its practice of recognizing interest and penalties related to income tax matters as interest expense and general and administrative expenses, respectively. During the three and nine months ended September 30, 2020, there was no interest or penalties associated with uncertain tax positions recognized in the Partnership's condensed consolidated financial statements.

Capital Contributions

For the nine months ended September 30, 2019, capital contributions from Diamondback to the Predecessor totaled $456.1 million, of which $228.3 million related to produced water disposal assets, $149.5 million related to the equity method investments in the EPIC and Gray Oak pipelines (defined below), $35.8 million related to crude oil assets, $31.1 million related to elimination of current and deferred liabilities, $18.1 million related to land, $9.4 million related to sourced water assets, $9.2 million related to an office building located in Midland Texas and $(25.3) million in additional assets and liabilities, net, related to operations.

Recent Accounting Pronouncements

The Partnership considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or clarifications of ASUs previously disclosed. The following table provides a brief description of recent accounting pronouncements and the Partnership's analysis of the effects on its financial statements:

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
Recently Adopted Pronouncements			
ASU 2016-13, "Financial Instruments - Credit Losses"	This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.	Q1 2020	The Partnership adopted this update effective January 1, 2020. The adoption of this update did not have an impact on its financial position, results of operations or liquidity since it does not have a history of credit losses.
Pronouncements Not Yet Adopted			
ASU 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes"	This update is intended to simplify the accounting for income taxes by removing certain exceptions and by clarifying and amending existing guidance.	Q1 2021	This update is effective for public business entities beginning after December 15, 2020 with early adoption permitted. The Partnership does not believe the adoption of this standard will have an impact on its financial position, results of operations or liquidity.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Partnership generates revenues by charging fees on a per unit basis for gathering crude oil and natural gas, delivering and storing sourced water, and collecting, recycling and disposing of produced water.

It is noted that surface revenue, rental and real estate income and amortization of out of market leases are outside the scope of ASC Topic 606, “Revenue from Contracts with Customers.”

Disaggregation of Revenue

In the following table, revenue is disaggregated by type of service and type of fee. The table also identifies the operating segment to which the disaggregated revenues relate. For more information on operating segments, see Note 17—Segment Information.

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2020	2019	2020	2019	Segment
	(In thousands)				
Type of Service:					
Sourced water gathering	$ 12,653	$ 26,485	$ 48,308	$ 83,966	Midstream
Produced water gathering and disposal	67,800	73,928	217,646	198,344	Midstream
Crude oil gathering	7,531	7,248	22,617	19,231	Midstream
Natural gas gathering	5,076	3,871	14,506	9,908	Midstream
Surface revenue (non ASC 606 revenues)	15	174	887	464	Midstream
Real estate contracts (non ASC 606 revenues)	3,464	3,709	10,705	10,452	Real Estate
Total revenues	$ 96,539	$ 115,415	$ 314,669	$ 322,365	

4. ACQUISITIONS

Ajax and Energen Assets

Effective January 1, 2019, Diamondback contributed to the Predecessor certain midstream assets (the “Ajax Assets”) within the Permian Basin that it acquired from Ajax Resources LLC (“Ajax”) as part of an upstream acquisition in the fourth quarter of 2018. These assets included 17 water wells, four produced water disposal wells and one related gathering system, a field office, surface land, five hydraulic fracturing pits and one related sourced water transportation system. Prior to their contribution, these assets were fully integrated into the upstream business acquired from Ajax. The carrying value of assets included in this contribution was $21.5 million. The contributed assets were recognized by the Predecessor at Diamondback’s historical basis due to the entities being under common control.

Effective January 1, 2019, Diamondback contributed to the Predecessor certain midstream assets (the “Energen Assets”) within the Permian Basin that it acquired from Energen Corporation (“Energen”) as part of an upstream acquisition in the fourth quarter of 2018. These assets included 56 produced water disposal wells and related gathering systems, an office building located in Midland Texas, surface land and an oil gathering system and asset retirement obligations related to these assets. Prior to their contribution, these assets were fully integrated into the upstream business acquired from Energen. The carrying value of assets included in this contribution was $279.0 million, net of $3.0 million in associated asset retirement obligations. The contributed assets were recognized by the Predecessor at Diamondback’s historical basis due to the entities being under common control.

The contribution of the Ajax and Energen Assets was an asset contribution that did not result in a change in the reporting entity at the Predecessor. As a result, the Ajax and Energen Assets were initially recognized at the date of the transfer at their carrying amounts in the accounts of Diamondback, and presented prospectively from that date.

5. REAL ESTATE ASSETS

In conjunction with Diamondback's contribution of Tall Towers, the Predecessor allocated the $110.0 million purchase price between real estate assets and intangible lease assets related to in-place and above-market leases. During the three months ended March 31, 2019, as part of the Energen contribution, Diamondback contributed an office building located in Midland Texas with a value of $9.2 million. The following schedules present the cost and related accumulated depreciation or amortization (as applicable) of the Partnership's real estate assets and intangible lease assets:

	Estimated Useful Lives	As of September 30, 2020	As of December 31, 2019
	(Years)	(In thousands)	
Buildings	20-30	$ 102,553	$ 102,375
Tenant improvements	15	4,506	4,501
Land	N/A	2,437	2,437
Land improvements	15	484	484
Total real estate assets		109,980	109,797
Less: accumulated depreciation		(12,165)	(8,681)
Total investment in real estate, net		$ 97,815	$ 101,116

	Weighted Average Useful Lives	As of September 30, 2020	As of December 31, 2019
	(Months)	(In thousands)	
In-place lease intangibles	45	$ 11,275	$ 11,389
Less: accumulated amortization		(7,687)	(5,927)
In-place lease intangibles, net		3,588	5,462
Above-market lease intangibles	45	3,623	3,623
Less: accumulated amortization		(1,466)	(1,015)
Above-market lease intangibles, net		2,157	2,608
Total intangible lease assets, net		$ 5,745	$ 8,070

Depreciation and amortization expense for real estate assets was $1.7 million and $1.9 million for the three months ended September 30, 2020 and 2019, respectively. Depreciation and amortization expense for real estate assets was $5.2 million and $5.8 million for the nine months ended September 30, 2020 and 2019, respectively.

The following table presents the Partnership's estimated amortization expense related to lease intangibles for the periods indicated (in thousands):

Remainder of 2020	2021	2022	2023	2024	Thereafter
$ 583	$ 1,779	$ 663	$ 728	$ 814	$ 1,178

6. PROPERTY, PLANT AND EQUIPMENT

The following table sets forth the Partnership's property, plant and equipment:

	Estimated Useful Lives	As of September 30, 2020	As of December 31, 2019
	(Years)	(In thousands)	
Produced water disposal systems	10-30	$ 669,825	$ 600,797
Crude oil gathering systems[1]	30	133,203	129,658
Natural gas gathering and compression systems[1]	10-30	111,830	98,426
Sourced water gathering systems[1]	30	111,354	101,887
Total property, plant and equipment		1,026,212	930,768
Less: accumulated depreciation, amortization and accretion		(90,456)	(61,132)
Land	N/A	85,826	86,072
Total property, plant and equipment, net		$ 1,021,582	$ 955,708

(1) Included in gathering systems are $71.9 million and $138.6 million of assets at September 30, 2020 and December 31, 2019, respectively, that are not subject to depreciation, amortization and accretion as the systems were under construction and had not yet been put into service.

Depreciation expense related to property, plant and equipment was $8.9 million and $8.7 million for the three months ended September 30, 2020 and 2019, respectively. Depreciation expense related to property, plant and equipment was $29.4 million and $24.9 million for the nine months ended September 30, 2020 and 2019, respectively.

Internal costs capitalized to property, plant and equipment represent management's estimate of costs incurred directly related to construction activities. Capitalized internal costs were immaterial for the nine months ended September 30, 2020 and 2019.

Capitalized interest related to property, plant and equipment was immaterial for the nine months ended September 30, 2020 and 2019.

The Partnership evaluates its long-lived assets for potential impairment whenever events or circumstances indicate it is more likely than not that the carrying amount of the asset, or set of assets, is greater than the fair value. An impairment involves comparing the estimated future undiscounted cash flows of an asset with the carrying amount. If the carrying amount of the asset exceeds the estimated future undiscounted cash flows, then an impairment charge is recorded for the difference between the estimated fair value of the asset and its carrying value. No impairment charges were recorded during the three and nine months ended September 30, 2020 and 2019. Given the rate of change impacting the oil and natural gas industry described above, it is possible that circumstances requiring additional impairment testing will occur in future interim periods, which could result in potentially material impairment charges being recorded.

7. EQUITY METHOD INVESTMENTS

The following table presents the carrying values of the Partnership's equity method investments as of the dates indicated:

	Ownership Interest	September 30, 2020	December 31, 2019
		(In thousands)	
EPIC Crude Holdings, LP	10 %	$ 123,002	$ 109,806
Gray Oak Pipeline, LLC	10 %	134,555	115,840
Wink to Webster Pipeline LLC	4 %	74,611	34,124
OMOG JV LLC	60 %	195,744	219,098
Amarillo Rattler, LLC	50 %	4,096	690
Total		$ 532,008	$ 479,558

The following table summarizes the income (loss) of equity method investees reflected in the Condensed Consolidated Statement of Operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
EPIC Crude Holdings, LP	$ (1,904)	$ (529)	$ (4,703)	$ (532)
Gray Oak Pipeline, LLC	3,832	(128)	5,585	(189)
Wink to Webster Pipeline LLC	(127)	26	73	26
OMOG JV LLC	1,499	—	(10,681)	—
Amarillo Rattler, LLC	69	—	(184)	—
Total	$ 3,369	$ (631)	$ (9,910)	$ (695)

On February 1, 2019, Diamondback funded and the Predecessor acquired a 10% equity interest in EPIC, which owns and operates a pipeline (the "EPIC pipeline") that transports crude oil and natural gas liquids across Texas for delivery into the Corpus Christi market. The EPIC pipeline became fully operational in April 2020.

On February 15, 2019, Diamondback funded and the Predecessor acquired a 10% equity interest in Gray Oak, which owns and operates a pipeline (the "Gray Oak pipeline") that transports crude oil from the Permian to Corpus Christi on the Texas Gulf Coast. The Gray Oak pipeline became fully operational in April 2020.

On March 29, 2019, the Predecessor executed a short-term promissory note to Gray Oak. The note allowed for borrowing by Gray Oak of up to $123.0 million at a 2.52% interest rate with a maturity date of March 31, 2022. The short-term promissory note was repaid on May 31, 2019.

On June 4, 2019, the Partnership entered into an equity contribution agreement with respect to Gray Oak. The equity contribution agreement required the Partnership to contribute equity or make loans to Gray Oak so that Gray Oak could, to the extent necessary, cure payment defaults under Gray Oak's credit agreement and, in certain instances, repay Gray Oak's credit agreement in full. The Partnership's obligations under the equity contribution agreement were limited to its proportionate ownership interest in Gray Oak, and such obligations were guaranteed by the Operating Company, Tall Towers, Rattler OMOG LLC and Rattler Ajax Processing LLC. The equity contribution agreement and the Partnership's obligations under the agreement were terminated in September 2020.

On July 30, 2019, the Operating Company joined Wink to Webster as a 4% member, together with affiliates of ExxonMobil, Plains All American Pipeline, Delek US, MPLX LP, and Lotus Midstream. The joint venture is developing a crude oil pipeline with origin points at Wink and Midland in the Permian Basin for delivery to multiple Houston area locations (the "Wink to Webster pipeline"). The Wink to Webster pipeline is expected to begin service in the first half of 2021.

On October 1, 2019, the Partnership acquired a 60% equity interest in OMOG. On November 7, 2019, OMOG acquired 100% of Reliance Gathering, LLC, which owns and operates a crude oil gathering system in the Permian Basin and was renamed as Oryx Midland Oil Gathering LLC following the acquisition.

On December 20, 2019, the Operating Company acquired a 50% equity interest in Amarillo Rattler, LLC, which currently owns and operates the Yellow Rose gas gathering and processing system with estimated total processing capacity of 40,000 Mcf/d and over 84 miles of gathering and regional transportation pipelines in Dawson, Martin and Andrews Counties, Texas. This joint venture also intends to construct and operate a new 60,000 Mcf/d cryogenic natural gas processing plant in Martin County, Texas, as well as incremental gas gathering and compression and regional transportation pipelines. However, development of the new processing plant has been postponed pending a recovery in commodity prices and activity levels. Diamondback has contracted for up to 30,000 Mcf/d of the capacity of the new processing plant pursuant to a gas gathering and processing agreement entered into with the joint venture in exchange for Diamondback's dedication of certain leasehold interests to that agreement.

The Partnership reviews its equity method investments to determine if a loss in value which is other than temporary has occurred. If such a loss has occurred, the Partnership recognizes an impairment provision. During the nine months ended September 30, 2020, the Partnership's loss from equity method investments includes a proportional charge of $15.8 million representing impairment recorded by the investee associated with its goodwill. During the three and nine months ended September 30, 2020, the Partnership's loss from equity method investments includes an immaterial abandonment charge related to a project that is no longer expected to be completed. No other impairments were recorded for the Partnership's or Predecessor's equity method investments for the three and nine months ended September 30, 2020 or 2019. The entities in which the Partnership is invested all serve customers in the oil and natural gas industry, which has been experiencing economic challenges as described above. It is possible that prolonged industry challenges could result in circumstances requiring impairment testing, which could result in potentially material impairment charges in future interim periods.

8. DEBT

Long-term debt consisted of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
	(In thousands)	
5.625% Senior Notes due 2025	$ 500,000	$ —
Operating Company revolving credit facility	85,000	424,000
Unamortized debt issuance costs	(9,546)	—
Total long-term debt	$ 575,454	$ 424,000

2025 Senior Notes

On July 14, 2020, the Partnership completed a notes offering (the "Notes Offering") of $500.0 million in aggregate principal amount of its 5.625% Senior Notes due 2025 (the "Notes"). Interest on the Notes is payable on January 15 and July 15 of each year, beginning on January 15, 2021. The Notes mature on July 15, 2025. The Partnership received net proceeds of approximately $489.5 million from the Notes Offering. The Partnership loaned the gross proceeds to the Operating Company, which used such proceeds to pay down borrowings under the Credit Agreement (defined below).

The Notes are senior unsecured obligations of the Partnership, rank equally in right of payment with all of the Partnership's existing and future senior indebtedness it may incur and initially are guaranteed on a senior unsecured basis by the Operating Company, Tall Towers, Rattler OMOG LLC and Rattler Ajax Processing LLC. Neither Diamondback nor the General Partner guarantee the Notes. In the future, each of the Partnership's restricted subsidiaries that either (1) guarantees any of its or a guarantor's other indebtedness or (2) is classified as a domestic restricted subsidiary under the indenture governing the Notes and is an obligor with respect to any indebtedness under any credit facility will be required to guarantee the Notes.

Rattler Midstream LP
Condensed Notes to Consolidated Financial Statements - Continued
(Unaudited)

Intercompany Promissory Note

In connection with and upon closing of the Notes Offering, the Partnership loaned the gross proceeds from the Notes Offering to the Operating Company under the terms of a subordinated promissory note, dated as of July 14, 2020, made by the Operating Company payable to the Partnership (the “Intercompany Promissory Note”). The Intercompany Promissory Note requires the Operating Company to repay the intercompany loan to the Partnership on the same terms and in the same amounts as the Notes and has the same maturity date, interest rate, change of control repurchase and redemption provisions. The Partnership’s right to receive payment under the Intercompany Promissory Note is contractually subordinated to the Operating Company’s guarantee of the Notes and its obligations under the Credit Agreement.

The Operating Company’s Revolving Credit Facility

On May 28, 2019, the Partnership, as parent, and the Operating Company, as borrower, entered into a credit agreement (as amended, the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), as administrative agent, and a syndicate of banks, including Wells Fargo, as lenders party thereto. The Credit Agreement provides for a revolving credit facility in the maximum amount of $600.0 million, which is expandable to $1.0 billion upon the Partnership’s election, subject to obtaining additional lender commitments and satisfaction of customary conditions. Loan principal may be optionally repaid from time to time without premium or penalty (other than customary LIBOR breakage), and is required to be paid at the maturity date of May 28, 2024. As of September 30, 2020, the Operating Company had $85.0 million of outstanding borrowings and $515.0 million available for future borrowings under the Credit Agreement. During the three and nine months ended September 30, 2020, the weighted average interest rate on borrowings under the Credit Agreement was 1.46% and 2.18%, respectively.

As of September 30, 2020, the Operating Company was in compliance with all financial maintenance covenants under the Credit Agreement.

9. UNIT-BASED COMPENSATION

On May 22, 2019, the board of directors of the General Partner adopted the Rattler Midstream LP Long Term Incentive Plan (“LTIP”), for employees, consultants and directors of the General Partner and any of its affiliates, including Diamondback, who perform services for the Partnership. The LTIP provides for the grant of unit options, unit appreciation rights, restricted units, unit awards, phantom units, distribution equivalent rights, cash awards, performance awards, other unit-based awards and substitute awards. As of September 30, 2020, a total of 14,856,026 common units had been reserved for issuance pursuant to the LTIP. Common units that are cancelled, forfeited or withheld to satisfy exercise prices or tax withholding obligations will be available for delivery pursuant to other awards. The LTIP is administered by the board of directors of the General Partner or a committee thereof.

For the three and nine months ended September 30, 2020, the Partnership incurred $2.2 million and $6.6 million, respectively, of unit–based compensation.

Phantom Units

Under the LTIP, the board of directors of the General Partner is authorized to issue phantom units to eligible employees and non-employee directors. The Partnership estimates the fair value of phantom units based on the closing price of the Partnership’s common units on the grant date of the award, and expenses this value over the applicable vesting period. Upon vesting, the phantom units entitle the recipient to one common unit of the Partnership for each phantom unit. The recipients are also entitled to distribution equivalent rights, which represent the right to receive a cash payment equal to the value of the distributions paid on one phantom unit between the grant date and the vesting date.

Rattler Midstream LP
Condensed Notes to Consolidated Financial Statements - Continued
(Unaudited)

The following table presents the phantom unit activity under the LTIP for the nine months ended September 30, 2020:

	Phantom Units		Weighted Average Grant-Date Fair Value
Unvested at December 31, 2019	2,226,895	$	19.14
Granted	53,943	$	10.41
Vested	(449,633)	$	19.14
Forfeited	(23,442)	$	18.23
Unvested at September 30, 2020	1,807,763	$	18.89

The aggregate fair value of phantom units that vested during the nine months ended September 30, 2020 was $8.6 million. As of September 30, 2020, the unrecognized compensation cost related to unvested phantom units was $31.0 million. Such cost is expected to be recognized over a weighted-average period of 3.56 years.

10. UNITHOLDERS' EQUITY AND DISTRIBUTIONS

The Partnership has general partner and limited partner units. At September 30, 2020, the Partnership had a total of 43,996,243 common units issued and outstanding and 107,815,152 Class B units issued and outstanding, of which no common units and 107,815,152 Class B units, representing approximately 71% of the Partnership's total units outstanding, were beneficially owned by Diamondback. Diamondback also beneficially owns 107,815,152 Operating Company units, representing a 71% economic, non-voting interest in the Operating Company. The Operating Company units and the Partnership's Class B units beneficially owned by Diamondback are exchangeable from time to time for the Partnership's common units (that is, one Operating Company unit and one Partnership Class B unit, together, will be exchangeable for one Partnership common unit).

The following table summarizes changes in the ownership interest in consolidated subsidiaries during the period:

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	(In thousands)			
Net income attributable to the Partnership	$	9,218	$	25,071
Change in ownership of consolidated subsidiaries		—		(329,034)
Change from net income (loss) attributable to the Partnership's unitholders and transfers to non-controlling interest	$	9,218	$	(303,963)

There were no changes in the ownership interests in consolidated subsidiaries during the period between the closing of the IPO on May 28, 2019 and September 30, 2019. See Note 2—Summary of Significant Accounting Policies—Non-controlling Interest for a discussion of the changes in the ownership interests in consolidated subsidiaries during the nine months ended September 30, 2020.

On February 13, 2020, the board of directors of the General Partner revised the Partnership's cash distribution policy to provide for the Operating Company to distribute $0.29 per Operating Company unit each quarter to its unitholders (including Diamondback and the Partnership), and for the Partnership to pay, to the extent legally available, cash distributions of $0.29 per common unit to common unitholders of record on the applicable record date within 65 days after the end of each quarter beginning with the quarter ended December 31, 2019. On October 29, 2020, the board of directors of the General Partner further revised the Partnership's cash distribution policy, reducing the quarterly distribution per Operating Company unit and Partnership common unit to $0.20 beginning with the quarter ended September 30, 2020. The board of directors of the General Partner may change the Partnership's distribution policy at any time and from time to time. The partnership agreement does not require the Partnership to pay cash distributions on the Partnership's common units on a quarterly or other basis.

The following table presents cash distributions approved by the board of directors of the General Partner for the periods indicated:

Declaration Date	Quarter[1]	Amount per Common Unit		Payment Date
October 31, 2019	Q3 2019[2]	$	0.34	November 22, 2019
February 13, 2020	Q4 2019	$	0.29	March 10, 2020
April 30, 2020	Q1 2020	$	0.29	May 26, 2020
July 31, 2020	Q2 2020	$	0.29	August 24, 2020
October 29, 2020	Q3 2020	$	0.20	November 23, 2020

(1) Distributions are shown for the quarter in which they were generated.
(2) The Q3 2019 distribution also includes amounts attributable to Q2 2019 commencing upon the closing of the IPO.

11. EARNINGS PER COMMON UNIT

Earnings per common unit on the condensed consolidated statements of operations is based on the net income of the Partnership for the three and nine months ended September 30, 2020 and 2019, since this is the amount of net income that is attributable to the Partnership's common units. The Partnership's net income is allocated wholly to the common units, as the General Partner does not have an economic interest.

Basic and diluted earnings per common unit is calculated using the two-class method. The two-class method is an earnings allocation proportional to the respective ownership among holders of common units and participating securities. Basic earnings per common unit is calculated by dividing net income by the weighted-average number of common units outstanding during the period. Diluted earnings per common unit also considers the dilutive effect of unvested common units granted under the LTIP, calculated using the treasury stock method.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	(In thousands, except per unit amounts)							
Net income (loss) attributable to Rattler Midstream LP	$	9,218	$	11,531	$	25,071	$	16,334
Less: net (income) loss allocated to participating securities[1]		(524)		—		(1,820)		—
Net income (loss) attributable to common unitholders	$	8,694	$	11,531	$	23,251	$	16,334
Weighted average common units outstanding:								
Basic weighted average common units outstanding		43,996		43,700		43,837		43,564
Effect of dilutive securities:								
Potential common units issuable[2]		—		1,136		—		1,146
Diluted weighted average common units outstanding		43,996		44,836		43,837		44,710
Net income per common unit, basic	$	0.20	$	0.26	$	0.53	$	0.37
Net income per common unit, diluted	$	0.20	$	0.26	$	0.53	$	0.37

(1) Distribution equivalent rights granted to employees are considered participating securities.
(2) For the three and nine months ended September 30, 2020, no potential common units were included in the computation of diluted earnings per unit because their inclusion would have been anti-dilutive under the treasury stock method for the periods presented. However, such potential common units could dilute basic earnings per unit in future periods.

12. RELATED PARTY TRANSACTIONS

Related party transactions include transactions with Diamondback. Among other agreements, the Partnership is a party to the following related party agreements with Diamondback.

Commercial Agreements

The Partnership derives substantially all of its revenue from its commercial agreements with Diamondback for the provision of midstream services. On May 5, 2020, the Partnership amended its commercial agreements to, among other things, in certain cases add new areas to the dedication and commitment of Diamondback and its affiliates and revise the threshold for permitting releases of dedications in connection with transfers or swaps by Diamondback or its affiliates. Revenues generated from commercial agreements with Diamondback consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Crude oil gathering	$ 2,745	$ 2,626	$ 7,730	$ 7,278
Natural gas gathering	5,076	3,870	14,506	9,908
Produced water gathering and disposal	66,067	72,917	211,353	196,213
Sourced water gathering	11,948	25,452	46,845	82,933
Surface revenue	10	1	26	176
Total	$ 85,846	$ 104,866	$ 280,460	$ 296,508

13. INCOME TAXES

Prior to the IPO, all of the membership interests of the Predecessor were owned by a single member. Under applicable federal income tax provisions, the Predecessor's legal existence as an entity separate from its sole owner was disregarded for U.S. federal income tax purposes. As a result, the Predecessor's owner, Diamondback, was responsible for federal income taxes on its share of the Predecessor's taxable income. Similarly, the Predecessor had no tax attributes such as net operating loss carryforwards because such tax attributes are treated for federal income tax purposes as attributable to the Predecessor's owner.

In certain circumstances, GAAP requires or permits entities such as the Predecessor to account for income taxes under the principles of ASC Topic 740, "Income Taxes" ("ASC Topic 740"), notwithstanding the fact that the separate legal entity's activity is attributed to its owner for income tax purposes. Accordingly, the Predecessor has applied the principles of ASC Topic 740 to its financial statements herein, for periods prior to the IPO, as if the Predecessor had been subject to taxation as a corporation. Consistent with the overall basis of presentation as described in Note 1—Organization and Basis of Presentation, for the three and nine months ended September 30, 2019, net income for the period prior to the IPO reflects income taxes based on federal and state income tax rates, net of federal benefit, applicable to the Predecessor as if it had been subject to taxation as a corporation. In connection with the completion of the IPO, an adjustment of $31.1 million to equity of the Predecessor was recorded for the elimination of current and deferred tax liabilities related to the period prior to the IPO.

For the three and nine months ended September 30, 2020, net income from continuing operations reflects income tax expense of $2.9 million and $7.8 million, respectively. For the nine months ended September 30, 2019, net income for the period prior to the IPO reflects income tax expense of $18.2 million and for the three and nine months ended September 30, 2019, net income for the period subsequent to the IPO reflects income tax expense of $3.3 million and $4.7 million, respectively. Total income tax expense for these periods differed from applying the U.S. statutory corporate income tax rate to pre-tax income primarily due to state income taxes, net of federal benefit, and due to net income attributable to the non-controlling interest for the period subsequent to the IPO. For the three and nine months ended September 30, 2020, the Partnership's total income tax provision also included discrete income tax expense of approximately $0.2 million and $0.5 million, respectively, primarily related to excess tax deficiencies on unit-based compensation.

The effective income tax rates for the three and nine months ended September 30, 2020, were 6.8% and 6.8%, respectively. The effective income tax rates for the three and nine months ended September 30, 2019, including periods prior to the IPO, were 6.4% and 14.6%, respectively. The increase in the effective income tax rate for the three months ended September 30, 2020, as compared to the three months ended September 30, 2019, is primarily due to discrete tax expense for the period. The decrease in the effective income tax rates for the nine months ended September 30, 2020, as compared to the nine months ended September 30, 2019, is primarily due to net income attributable to the non-controlling interest in periods subsequent to the IPO.

During the three months ended June 30, 2020, the Partnership recorded an adjustment through unitholders' equity to the carrying value of its investment in the Operating Company, resulting in a decrease in the Partnership's deferred tax liability related to its investment in the Operating Company and a total net deferred tax asset balance for the Partnership. As a result of management's assessment each period, including consideration of all available positive and negative evidence, management continued to determine that it is more likely than not that the Partnership will realize its deferred tax assets as of September 30, 2020.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020. This legislation included a number of provisions applicable to U.S. income taxes for corporations, including providing for carryback of certain net operating losses, accelerated refund of minimum tax credits, and modifications to the rules limiting the deductibility of business interest expense. The Partnership has considered the impact of this legislation in the period of enactment and concluded there was not a material impact to the Partnership's current or deferred income tax balances.

14. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Partnership's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The Partnership uses appropriate valuation techniques based on available inputs to measure the fair values of its assets and liabilities.

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data. These are inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 - Unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table provides the fair value of financial instruments that are not recorded at fair value in the condensed consolidated balance sheets:

	September 30, 2020		December 31, 2019	
	Carrying Value[(1)]	Fair Value	Carrying Value[(1)]	Fair Value
	(In thousands)			
Debt:				
5.625% Senior Notes due 2025	$ 490,454	$ 504,605	$ —	$ —
Operating Company revolving credit facility	85,000	85,000	424,000	424,000

(1) The carrying value includes associated deferred loan costs and any remaining discount or premium, if any.

The fair value of the Operating Company's revolving credit facility approximates its carrying value based on borrowing rates available to the Partnership for bank loans with similar terms and maturities and is classified as Level 2 in the fair value hierarchy. The fair value of the Notes was determined using the September 30, 2020 quoted market price, a Level 1 classification in the fair value hierarchy.

The Partnership estimates asset retirement obligations pursuant to the provisions of ASC Topic 410, "Asset Retirement and Environmental Obligations." The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with produced water disposal wells. Given the unobservable nature of the inputs, including plugging costs and useful lives, the initial measurement of the ARO liability is deemed to use Level 3 inputs.

Fair Value of Financial Assets

The Partnership has other financial instruments consisting of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued liabilities and various other current liabilities. The carrying value of these instruments approximates fair value.

15. COMMITMENTS AND CONTINGENCIES

The Partnership may be a party to various routine legal proceedings, disputes and claims from time to time arising in the ordinary course of its business, including those that arise from interpretation of federal and state laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. The Partnership's management believes there are currently no such matters that, if decided adversely, will have a material adverse effect on the Partnership's financial condition, results of operations or cash flows.

As of September 30, 2020, the Partnership's anticipated future capital commitments for its equity method investments include $14.1 million for the remainder of 2020 and total $82.4 million in aggregate.

16. SUBSEQUENT EVENTS

Cash Distribution

On October 29, 2020, the board of directors of the General Partner approved a cash distribution for the third quarter of 2020 of $0.20 per common unit, payable on November 23, 2020, to unitholders of record at the close of business on November 16, 2020.

Implementation of Common Unit Repurchase Program

On October 29, 2020, the board of directors of the General Partner approved a common unit repurchase program to acquire up to $100 million of the Partnership's outstanding common units. The common unit repurchase program is authorized to extend through December 31, 2021 and the Partnership intends to purchase common units under the repurchase program opportunistically with cash on hand and free cash flow from operations. This repurchase program may be suspended from time to time, modified, extended or discontinued by the board of directors of the General Partner at any time. Purchases under the repurchase program may be made from time to time in open market or privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, and will be subject to market conditions, applicable legal requirements, contractual obligations and other factors.

Amendment to Credit Agreement

On November 2, 2020, the Partnership and the Operating Company entered into a second amendment (the "Second Amendment") to the Credit Agreement with Wells Fargo, as the administrative agent, and the lenders party thereto. The Second Amendment permits the Partnership to conduct common unit repurchases in connection with the common unit repurchase program described above.

17. SEGMENT INFORMATION

The Partnership’s operations are reported in two operating segments: (i) midstream services and (ii) real estate operations. The following tables summarize the results of the Partnership’s operating segments during the periods presented:

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Midstream Services	Real Estate Operations	Total	Midstream Services	Real Estate Operations	Total
	(In thousands)					
Revenues—related party	$ 85,846	$ —	$ 85,846	$ 104,866	$ —	$ 104,866
Revenues—third party	7,229	—	7,229	6,840	—	6,840
Rental income—related party	—	2,282	2,282	—	1,399	1,399
Rental income—third party	—	867	867	—	1,894	1,894
Other real estate income—related party	—	149	149	—	111	111
Other real estate income—third party	—	166	166	—	305	305
Total revenues	93,075	3,464	96,539	111,706	3,709	115,415
Direct operating expenses	31,173	—	31,173	29,789	—	29,789
Cost of goods sold (exclusive of depreciation and amortization)	6,663	—	6,663	17,350	—	17,350
Real estate operating expenses	—	494	494	—	742	742
Depreciation, amortization and accretion	9,255	1,735	10,990	9,835	1,901	11,736
(Gain) loss on disposal of property, plant and equipment	(16)	—	(16)	—	—	—
(Income) loss from equity method investments	(3,369)	—	(3,369)	631	—	631
Segment profit	49,369	1,235	50,604	54,101	1,066	55,167
General and administrative expenses	—	—	(3,140)	—	—	(3,240)
Interest income (expense), net	—	—	(5,817)	—	—	(553)
Net income (loss) before income taxes	49,369	1,235	41,647	54,101	1,066	51,374
Provision for (benefit from) income taxes	—	—	2,851	—	—	3,294
Net income (loss)	$ 49,369	$ 1,235	$ 38,796	$ 54,101	$ 1,066	$ 48,080

	As of September 30, 2020			As of December 31, 2019		
Segment assets	$ 1,552,100	$ 105,050	$ 1,812,243	$ 1,436,213	$ 108,239	$ 1,636,393

Rattler Midstream LP
Condensed Notes to Consolidated Financial Statements - Continued
(Unaudited)

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Midstream Services	Real Estate Operations	Total	Midstream Services	Real Estate Operations	Total
	(In thousands)					
Revenues—related party	$ 280,460	$ —	$ 280,460	$ 296,508	$ —	$ 296,508
Revenues—third party	23,504	—	23,504	15,405	—	15,405
Rental income—related party	—	5,101	5,101	—	3,370	3,370
Rental income—third party	—	4,653	4,653	—	5,999	5,999
Other real estate income—related party	—	318	318	—	265	265
Other real estate income—third party	—	633	633	—	818	818
Total revenues	303,964	10,705	314,669	311,913	10,452	322,365
Direct operating expenses	101,425	—	101,425	76,381	—	76,381
Cost of goods sold (exclusive of depreciation and amortization)	27,368	—	27,368	46,252	—	46,252
Real estate operating expenses	—	1,812	1,812	—	1,963	1,963
Depreciation, amortization and accretion	30,351	5,245	35,596	26,028	5,770	31,798
(Gain) loss on disposal of property, plant and equipment	2,765	—	2,765	(4)	—	(4)
(Income) loss from equity method investments	9,910	—	9,910	695	—	695
Segment profit	132,145	3,648	135,793	162,561	2,719	165,280
General and administrative expenses	—	—	(11,829)	—	—	(7,677)
Interest income (expense), net	—	—	(10,364)	—	—	(638)
Net income (loss) before income taxes	132,145	3,648	113,600	162,561	2,719	156,965
Provision for (benefit from) income taxes	—	—	7,754	—	—	22,850
Net income (loss)	$ 132,145	$ 3,648	$ 105,846	$ 162,561	$ 2,719	$ 134,115

	As of September 30, 2020			As of December 31, 2019		
Segment assets	$ 1,552,100	$ 105,050	$ 1,812,243	$ 1,436,213	$ 108,239	$ 1,636,393

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto presented in this report as well as our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors. See "Cautionary Statement Regarding Forward-Looking Statements."

Overview

We are a growth-oriented Delaware limited partnership formed by Diamondback in July 2018 to own, operate, develop and acquire midstream infrastructure assets in the Midland and Delaware Basins of the Permian Basin, one of the most prolific oil producing areas in the world. We have elected to be treated as a corporation for U.S. federal income tax purposes.

We provide crude oil, natural gas and water-related midstream services (including water sourcing and transportation and produced water gathering and disposal) to Diamondback under long-term, fixed-fee contracts. In addition to our midstream infrastructure assets, we own equity interests in three long-haul crude oil pipelines, which run from the Permian to the Texas Gulf Coast. In addition, we own equity interests in third-party operated gathering systems and processing facilities supported by dedications from Diamondback. We are critical to Diamondback's growth plans because we provide a long-term midstream solution to its increasing crude oil, natural gas and water-related services needs through our robust infield gathering systems and produced water disposal capabilities.

As of September 30, 2020, our general partner held a 100% general partner interest in us. Diamondback held no common units and beneficially owned all of our 107,815,152 outstanding Class B units, representing approximately 71% of our total units outstanding. Diamondback also owns and controls our general partner.

As of September 30, 2020, we own a 29% controlling membership interest in the Operating Company and Diamondback owns, through its ownership of the Operating Company units, a 71% economic, non-voting interest in the Operating Company. However, as required by GAAP, we consolidate 100% of the assets and operations of the Operating Company in our financial statements and reflect a non-controlling interest.

Recent Developments

Implementation of Common Unit Repurchase Program

On October 29, 2020, the board of directors of our general partner approved a common unit repurchase program to acquire up to $100 million of our outstanding common units. The common unit repurchase program is authorized to extend through December 31, 2021 and we intend to purchase common units under the repurchase program opportunistically with cash on hand and free cash flow from operations. This repurchase program may be suspended from time to time, modified, extended or discontinued by the board of directors of our general partner at any time. Purchases under the repurchase program may be made from time to time in open market or privately negotiated transactions in compliance with Rule 10b-18 under the Exchange Act and will be subject to market conditions, applicable legal requirements, contractual obligations and other factors. In connection with the common unit repurchase program, the Operating Company entered into a second amendment to its credit agreement permitting such program.

Notes Offering

On July 14, 2020, we completed an offering, which we refer to as the notes offering, of our 5.625% senior notes due 2025 in the aggregate principal amount of $500.0 million, which we refer to as the notes. We received net proceeds of approximately $489.5 million from the notes offering. We loaned the gross proceeds of the notes offering to the Operating Company, which used such proceeds to pay down borrowings under its revolving credit facility. For additional information regarding the notes offering, see "—Liquidity and Capital Resources—Indebtedness—Notes Offering" below.

COVID-19 and Collapse in Commodity Prices

On March 11, 2020, the World Health Organization characterized the global outbreak of the novel strain of coronavirus, COVID-19, as a "pandemic." To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines, causing some businesses to suspend operations and a reduction in demand for many products from direct or ultimate customers. Although many stay-at-home orders have expired and certain restrictions on conducting business have been lifted, the COVID-19 pandemic resulted in a widespread health crisis and a swift and unprecedented reduction in international and U.S. economic activity which, in turn, has adversely affected the demand for oil and natural gas and caused significant volatility and disruption of the financial markets.

In early March 2020, oil prices dropped sharply, and then continued to decline, reaching negative levels per barrel. This was a result of multiple factors affecting the supply and demand in global oil and natural gas markets, including the announcement of price reductions and production increases by OPEC members and other exporting nations and a significant decrease in demand as a result of the ongoing COVID-19 pandemic. While OPEC members and certain other nations agreed to cut production to help to reduce a portion of the excess supply in the market and improve oil prices, there is no assurance that production cuts will continue or be observed by its parties, and downward pressure on commodity prices has continued and could continue for the foreseeable future. We cannot predict if or when commodity prices will stabilize and at what levels.

We derive substantially all of our revenue from our commercial agreements with Diamondback, which do not contain minimum volume commitments. The reduction of Diamondback's drilling and development plan on the acreage dedicated to us by Diamondback directly and adversely impacts Diamondback's demand for our midstream services. As a result of the reduction in crude oil demand caused by factors discussed above, Diamondback previously lowered its 2020 capital budgets and production guidance, curtailed near term production and reduced its rig count, all of which may be subject to further reductions or curtailments if the commodity markets and macroeconomic conditions do not improve or worsen. These actions have had and will continue to have a detrimental effect on our sourced water business line and our overall operations. Diamondback has recently moved to restore curtailed production and, in the third quarter of 2020, resumed its completion activities to stem production declines. Diamondback also announced that it remains on track to meet its fourth quarter 2020 production target of between 170,000 and 175,000 barrels of oil per day, and expects this to be the baseline for its development plan in 2021. We cannot predict the extent to which Diamondback's business would be impacted if conditions in the energy industry were to further deteriorate nor can we estimate the impact such conditions would have on Diamondback's ability to execute its drilling and development plan on the dedicated acreage or to perform under our commercial agreements.

In coordination with Diamondback's production reductions, in March 2020, we announced a reduction in our planned 2020 capital budget of over 40%. Additionally, we lowered full year 2020 EBITDA guidance by approximately 25% at the midpoint, which assumed a 15 to 25% reduction in equity method EBITDA contributions for the year, as well as fewer volumes for our operated business due to lower activity levels. On a gross dollar basis, our reductions in planned capital expenditures on operated assets have exceeded declines in operated EBITDA in 2020. Should Diamondback cut activity further, our capital expenditures will be reduced accordingly. Our operations in the third quarter of 2020 stabilized after the interruption caused by the historic commodity price volatility in the second quarter of 2020. With Diamondback resuming completion activity to stem production declines, we have adjusted our operations to this new level of completion and production activity, and we believe our third quarter 2020 results offer a new baseline view of our volumes and earnings potential after the downturn experience in the first half of 2020. During the fourth quarter of 2020 and in 2021, we expect to continue to reduce operated capital expenditures towards our total of approximately half of 2020 levels, representing less than a third of 2019 operated capital expenditures. Combined with our equity method joint venture build cycle nearing its end and changing from a net outflow of capital contributions to a net inflow of cash contributions, we believe that this stabilized volume outlook will present a meaningful free cash flow generation even in this depressed commodity price environment.

Initial Public Offering

Prior to the closing on May 28, 2019 of our IPO, Diamondback owned all of the general and limited partner interests in our Predecessor. On May 22, 2019, we priced 38,000,000 common units in our IPO at a price of $17.50 per share, and on May 23, 2019, our common units began trading on Nasdaq under the symbol "RTLR". On May 30, 2019, the underwriters purchased an additional 5,700,000 common units following the exercise in full of their over-allotment option. We received aggregate net proceeds of $719.4 million from the sale of these common units, after deducting the underwriting discount and offering expenses.

At the closing of our IPO, we (i) issued 107,815,152 Class B units representing an aggregate 71% voting limited partner interest in us in exchange for a $1.0 million cash contribution from Diamondback, (ii) issued a general partner interest in us to our general partner in exchange for a $1.0 million cash contribution from our general partner, and (iii) caused the Operating Company to make a distribution of approximately $726.5 million to Diamondback. Diamondback, as the holder of the Class B units, and our general partner, as the holder of our general partner interest, are entitled to receive cash preferred distributions equal to 8% per annum on the outstanding amount of their respective $1.0 million capital contributions, payable quarterly.

Operational Update

Highlights

The following are our significant operating results for the three months ended September 30, 2020, as compared with the three months ended September 30, 2019:

- average crude oil gathering volumes were 91,090 Bbl/d, an increase of 2% year over year;
- average natural gas gathering volumes were 119,951 MMBtu/d, an increase of 31% year over year;
- average produced water gathering and disposal volumes were 763,475 Bbl/d, a decrease of 10% year over year; and
- average sourced water gathering volumes were 203,785 Bbl/d, a decrease of 47% year over year.

Pipeline Infrastructure Assets

The following tables provide information regarding our gathering, compression and transportation system as of September 30, 2020 and utilization for the quarter ended September 30, 2020:

(Miles)[(1)]	Delaware Basin	Midland Basin	Permian Total
Crude oil	108	46	154
Natural gas	155	—	155
Produced water	267	241	508
Sourced water	27	74	101
Total	557	361	918

(Capacity/capability)[(1)]	Delaware Basin	Midland Basin	Permian Total	Utilization
Crude oil gathering (Bbl/d)	210,000	65,000	275,000	36 %
Natural gas compression (Mcf/d)	151,000	—	151,000	56 %
Natural gas gathering (Mcf/d)	170,000	—	170,000	50 %
Produced water gathering and disposal (Bbl/d)	1,482,000	1,822,000	3,304,000	23 %
Sourced water (Bbl/d)	120,000	455,000	575,000	35 %

(1) Does not include any assets of the EPIC, Gray Oak, Wink to Webster, Amarillo Rattler or OMOG joint ventures.

Factors Affecting the Comparability of Our Financial Results

Our future results of operations may not be comparable to our Predecessor's historical results of operations for the reasons described below:

Operating Expenses

At the closing of our IPO, we entered into the services and secondment agreement with Diamondback under which we pay fees to Diamondback with respect to certain operational services Diamondback provides in support of our operations. Our Predecessor recorded direct costs of running our businesses as well as certain costs allocated from Diamondback. As such, there are differences in the results of our operations between our Predecessor's historical financial statements and our financial statements.

General and Administrative Expenses

Our Predecessor's general and administrative expenses included an allocation of charges for the management and operation of our assets by Diamondback for general and administrative services, such as information technology, treasury, accounting, human resources and legal services, and other financial and administrative services. Following the completion of our IPO, Diamondback charges us a combination of direct and allocated charges for general and administrative services pursuant to our partnership agreement and the services and secondment agreement.

In addition, as compared to our Predecessor, we incur incremental general and administrative expenses attributable to being a publicly traded partnership, which includes expenses associated with annual, quarterly and current reporting with the SEC, tax return preparation, Sarbanes-Oxley compliance, listing on Nasdaq, independent auditor fees, legal fees, investor relations expenses, transfer agent and registrar fees, incremental salary and benefits costs of seconded employees, outside director fees and insurance expenses. These incremental general and administrative expenses and the variable component of the general and administrative costs that we are incurring under the services and secondment agreement are not reflected in our Predecessor's historical financial statements.

Financing

There are differences in the way we finance our operations compared to the way our Predecessor historically financed operations as part of Diamondback's integrated operations. Our sources of liquidity following our IPO include cash generated from operations, borrowings under the Operating Company's revolving credit facility and the issuance of notes in our recent notes offering.

Income Taxes

Income tax expense includes U.S. federal and state taxes on operations, as applicable. Prior to our IPO, our Predecessor was organized as a disregarded entity for income tax purposes. As a result, our Predecessor's sole owner, Diamondback, was responsible for federal income taxes on our Predecessor's taxable income. Even though we are organized as a limited partnership under state law, we are treated as a corporation for U.S. federal income tax purposes and are subject to U.S. federal and state income tax at corporate rates, subsequent to the May 24, 2019, effective date of our election to be treated as a corporation. As such, our net income for the three and nine months ended September 30, 2020 reflects a provision for income taxes, and for the 2019 periods prior to our IPO, net income for the Predecessor reflects, on a pro forma basis, a provision for income taxes as if our Predecessor had been treated as a corporation for U.S. federal income tax purposes.

Factors Impacting Our Business

We expect our business to continue to be affected by the key factors discussed below. Our expectations are based on assumptions made by us and information currently available to us. To the extent our underlying assumptions about, or interpretations of, available information prove to be incorrect, our actual results may vary materially from our expected results. For a discussion of how our commodity prices are expected to continue to be volatile as a result of the near term actions by members of OPEC and other oil exporting nations and the ongoing COVID-19 pandemic and the direct and indirect impact of this volatility on our business, financial condition, results of operations, cash flows and ability to make distributions to our common unitholders, please read "Recent Developments—COVID-19 and Collapse in Commodity Prices" above.

Sources of Our Revenues

We currently generate a substantial portion of our revenues under fee-based commercial agreements with Diamondback, each with an initial term ending in 2034, utilizing our infrastructure assets or our planned infrastructure assets to provide an array of essential services critical to Diamondback's upstream operations on certain dedicated acreage in the Delaware and Midland Basins. Our crude oil infrastructure assets consist of gathering pipelines and metering facilities, which collectively gather crude oil for our customers. Our facilities gather crude oil from horizontal and vertical wells in Diamondback's ReWard, Spanish Trail, Pecos and Glasscock areas within the Permian. Our natural gas gathering and compression system consists of gathering pipelines, compression and metering facilities, which collectively service the production from Diamondback's Pecos area assets within the Permian. Our water sourcing and distribution assets consist of water wells, hydraulic fracturing pits, pipelines and water treatment facilities, which collectively gather and distribute water from Permian aquifers to the drilling and completion sites through buried pipelines and temporary surface pipelines. Our produced water gathering and disposal system spans approximately 508 miles and consists of gathering pipelines along with produced water disposal wells and facilities which collectively gather and dispose of produced water from operations throughout Diamondback's Permian acreage.

Our contracts with Diamondback promote cash flow stability and minimize our direct exposure to commodity price fluctuations, since we generally do not own any of the crude oil, natural gas or water that we gather and do not engage in the trading of crude oil or natural gas. However, the volumetric fees we charge are adjusted each calendar year by the amount of percentage change, if any, in the consumer price index from the preceding calendar year. No adjustment will be made if the percentage change would result in a fee below the initial fee set forth in the applicable commercial agreement and any adjustment to the volumetric fees shall not exceed 3% of the then-current fee. Further, the total adjustment of the fees shall never result in a cumulative volumetric fee adjustment of more than 30% of the initial fees set forth in the applicable commercial agreement

Supply and Demand for Crude Oil and Natural Gas

Commodity price fluctuations indirectly influence our activities and results of operations over the long-term, since they can affect production rates and investments by Diamondback and third-parties in the development of new crude oil and natural gas reserves. Generally, drilling and production activity will increase as crude oil and natural gas prices increase. Our throughput volumes depend primarily on the volumes of crude oil and natural gas produced by Diamondback in the Permian and, with respect to sourced water, the number of wells drilled and completed. Commodity prices are volatile and influenced by numerous factors beyond our or Diamondback's control, including the domestic and global supply of and demand for crude oil and natural gas. The commodities trading markets, as well as other supply and demand factors, may also influence the selling prices of crude oil and natural gas. Furthermore, our ability to execute our growth strategy in the Permian will depend on crude oil and natural gas production in that area, which is also affected by the supply of and demand for crude oil and natural gas. Please read "Risk Factors—Risks Related to Our Business—Our business and operations have been and will likely continue to be adversely affected by the recent COVID-19 pandemic and decreased demand for oil and natural gas" included in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 and "Risk Factors—Risks Related to Our Business—Because of the natural decline in hydrocarbon production from existing wells, our success depends, in part, on our ability to maintain or increase hydrocarbon throughput volumes on our midstream systems, which depends on our customers' levels of development and completion activity on our Dedicated Acreage" and "Risk Factors—Risks Related to Our Business—Our construction of new midstream assets may not result in revenue increases and may be subject to regulatory, environmental, political, contractual, legal and economic risks, which could adversely affect our cash flow, results of operations and financial condition and, as a result, our ability to distribute cash to unitholders" included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Regulatory Compliance

The regulation of crude oil and natural gas gathering and transportation and water services activities by federal and state regulatory agencies has a significant impact on our business. Our operations are also impacted by new regulations, which have increased the time that it takes to obtain required permits.

Additionally, increased regulation of crude oil and natural gas producers in our areas of operation, including regulation associated with hydraulic fracturing, could reduce regional supply of crude oil, natural gas and water and, therefore, throughput on our infrastructure assets.

Results of Operations

The following table sets forth selected historical operating data for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands, except operating data)			
Revenues:				
Revenues—related party	$ 85,846	$ 104,866	$ 280,460	$ 296,508
Revenues—third party	7,229	6,840	23,504	15,405
Rental income—related party	2,282	1,399	5,101	3,370
Rental income—third party	867	1,894	4,653	5,999
Other real estate income—related party	149	111	318	265
Other real estate income—third party	166	305	633	818
Total revenues	96,539	115,415	314,669	322,365
Costs and expenses:				
Direct operating expenses	31,173	29,789	101,425	76,381
Cost of goods sold (exclusive of depreciation and amortization)	6,663	17,350	27,368	46,252
Real estate operating expenses	494	742	1,812	1,963
Depreciation, amortization and accretion	10,990	11,736	35,596	31,798
General and administrative expenses	3,140	3,240	11,829	7,677
(Gain) loss on disposal of property, plant and equipment	(16)	—	2,765	(4)
Total costs and expenses	52,444	62,857	180,795	164,067
Income from operations	44,095	52,558	133,874	158,298
Other income (expense):				
Interest income (expense), net	(5,817)	(553)	(10,364)	(638)
Income (loss) from equity method investments	3,369	(631)	(9,910)	(695)
Total other income (expense), net	(2,448)	(1,184)	(20,274)	(1,333)
Net income (loss) before income taxes	41,647	51,374	113,600	156,965
Provision for (benefit from) income taxes	2,851	3,294	7,754	22,850
Net income (loss)	38,796	48,080	105,846	134,115
Less: Net income (loss) before initial public offering	—	—	—	65,995
Net income (loss) subsequent to initial public offering	—	—	—	68,120
Less: Net income (loss) attributable to non-controlling interest	29,578	36,549	80,775	51,786
Net income (loss) attributable to Rattler Midstream LP	$ 9,218	$ 11,531	$ 25,071	$ 16,334
Operating Data:				
Throughput[(1)]				
Crude oil gathering volumes (Bbl/d)	91,090	88,990	93,205	80,594
Natural gas gathering volumes (MMBtu/d)	119,951	91,455	115,089	78,918
Produced water gathering and disposal volumes (Bbl/d)	763,475	845,877	825,254	776,215
Sourced water gathering volumes (Bbl/d)	203,785	384,066	242,710	394,946

(1) Does not include any volumes from the EPIC, Gray Oak, Wink to Webster, Amarillo Rattler or OMOG joint ventures.

Comparison of the Three Months Ended September 30, 2020 and 2019

Revenues

Revenues decreased by $18.9 million to $96.5 million for the three months ended September 30, 2020 from $115.4 million for the three months ended September 30, 2019, primarily due to a reduction in sourced and produced water volumes due to Diamondback's lower level of drilling and completion activity in the third quarter of 2020.

Direct Operating Expenses

Direct operating expenses increased by $1.4 million to $31.2 million for the three months ended September 30, 2020 from $29.8 million for three months ended September 30, 2019, largely due to asset maintenance and workover charges related to our produced water wells to increase their capacity and increased operating expenses related to increased oil and gas volumes.

Cost of Goods Sold

Cost of goods sold (exclusive of depreciation and amortization) decreased by $10.7 million to $6.7 million for the three months ended September 30, 2020 from $17.4 million for the three months ended September 30, 2019. The decrease primarily relates to a reduction in sourced water volumes due to Diamondback's lower level of drilling and completion activity in the second quarter of 2020.

Interest Expense, Net

Net interest expense was $5.8 million for the three months ended September 30, 2020, compared to $0.6 million for the three months ended September 30, 2019. This increase was primarily due to interest accrued on the notes which were issued in July 2020 and bear interest at a rate of 5.625% per annum.

Income from Equity Method Investments

Income from equity method investments was $3.4 million for the three months ended September 30, 2020, and was primarily related to income of $5.4 million attributable to the investments in Gray Oak Pipeline LLC, OMOG JV LLC, which we refer to as OMOG, and Amarillo Rattler LLC, partially offset by losses of $2.0 million related to investments in EPIC Crude Holdings, LP and Wink to Webster Pipeline, LLC.

Provision for Income Taxes

We recorded income tax expense of $2.9 million and $3.3 million for the three months ended September 30, 2020 and 2019, respectively. The change in our income tax provision was primarily due to the impact of net income attributable to the non-controlling interest and the decrease in pre-tax income for the three months ended September 30, 2020. Total income tax expense for the three months ended September 30, 2020 differed from amounts computed by applying the federal statutory tax rate to pre-tax income for the period primarily due to state taxes, net of federal benefit, and due to net income attributable to the non-controlling interest.

Comparison of the Nine Months Ended September 30, 2020 and 2019

Revenues

Revenues decreased by $7.7 million to $314.7 million for the nine months ended September 30, 2020 from $322.4 million for the nine months ended September 30, 2019. This decrease relates primarily to a reduction in sourced water volumes due to Diamondback's lower level of drilling and completion activity in the second and third quarters of 2020. This was partially offset by an increase in produced water, oil and gas volumes largely due to the continued build out of certain midstream assets that Diamondback contributed to us, as well as the additional build out of historical Partnership systems.

Direct Operating Expenses

Direct operating expenses increased by $25.0 million to $101.4 million for the nine months ended September 30, 2020 from $76.4 million for the nine months ended September 30, 2019. This increase was primarily due to increased oil, gas and produced water volumes largely attributable to the continued build out of our assets. In addition, we incurred certain asset maintenance and workover charges related to our produced water wells to increase their capacity.

Cost of Goods Sold

Cost of goods sold (exclusive of depreciation and amortization) decreased by $18.9 million to $27.4 million for the nine months ended September 30, 2020 from $46.3 million for the nine months ended September 30, 2019. The decrease primarily relates to a reduction in sourced water volumes due to Diamondback's lower level of drilling and completion activity throughout the second and third quarters of 2020.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion increased by $3.8 million to $35.6 million for the nine months ended September 30, 2020 from $31.8 million for the nine months ended September 30, 2019. This increase was primarily due to asset contributions from Diamondback and further development of existing gathering and compression, transportation and disposal systems.

General and Administrative Expenses

General and administrative expenses increased by $4.2 million to $11.8 million for the nine months ended September 30, 2020 from $7.7 million for the nine months ended September 30, 2019. This increase was primarily due to increased shared service allocations and additional professional service fees attributable to business growth, the contribution of additional midstream assets and additional public company costs incurred.

Interest Expense, Net

Net interest expense was $10.4 million for the nine months ended September 30, 2020, compared to $0.6 million for the nine months ended September 30, 2019. This increase was due to the timing of our entry into the credit agreement on May 28, 2019 and having a full period of borrowings during 2020 as compared to 2019, as well as interest accrued on the notes issued in July 2020.

Loss from Equity Method Investments

Loss from equity method investments was $9.9 million for the nine months ended September 30, 2020, and was primarily related to expense associated with an impairment in the second quarter of 2020 of OMOG at the partnership level, which was partially offset by income from our other equity method investments.

Provision for Income Taxes

We recorded income tax expense of $7.8 million and $22.9 million for the nine months ended September 30, 2020 and 2019, respectively. The change in our income tax provision was primarily due to the impact of net income attributable to non-controlling interest and the decrease in pre-tax income for the nine months ended September 30, 2020. Total income tax expense for the nine months ended September 30, 2020 differed from amounts computed by applying the federal statutory tax rate to pre-tax income for the period primarily due to state taxes, net of federal benefit, and due to net income attributable to the non-controlling interest.

Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA is a supplemental non-GAAP financial measure used by management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. We believe Adjusted EBITDA is useful because it allows us to more effectively evaluate our operating performance and compare the results of our operations period to period without regard to our financing methods or capital structure.

We define Adjusted EBITDA as net income before income taxes, interest expense, net of amount capitalized, depreciation, amortization and accretion on assets and liabilities of the Operating Company, our proportional depreciation and interest expense related to equity method investments, our proportional impairments and abandonments related to equity method investments, non-cash unit-based compensation expense and other non-cash transactions. The GAAP measure most directly comparable to Adjusted EBITDA is net income. However, Adjusted EBITDA is not a measure of net income as determined by GAAP. We exclude the items listed above from net income in arriving at Adjusted EBITDA because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as historic costs of depreciable assets.

Adjusted EBITDA should not be considered an alternative to net income or any other measure of financial performance or liquidity presented in accordance with GAAP. Our computation of Adjusted EBITDA excludes some, but not all, items that affect net income, and these measures may vary from those of other companies. As a result, Adjusted EBITDA as presented below may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of net income to Adjusted EBITDA to for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Reconciliation of Net Income to Adjusted EBITDA:				
Net income	$ 38,796	$ 48,080	$ 105,846	$ 134,115
Interest expense, net of amount capitalized	5,817	553	10,364	638
Depreciation, amortization and accretion	10,990	11,736	35,596	31,798
Depreciation and interest expense related to equity method investments	9,330	1,205	20,340	1,354
Impairments and abandonments related to equity method investments	676	—	16,515	—
Non-cash unit-based compensation expense	2,216	2,158	6,555	2,989
Other non-cash transactions	671	—	3,236	—
Provision for income taxes	2,851	3,294	7,754	22,850
Adjusted EBITDA	71,347	67,026	206,206	193,744
Less: Adjusted EBITDA prior to the IPO	—	—	—	100,743
Adjusted EBITDA subsequent to the IPO	71,347	67,026	206,206	93,001
Less: Adjusted EBITDA attributable to non-controlling interest	50,670	47,694	146,582	66,177
Adjusted EBITDA attributable to Rattler Midstream LP	$ 20,677	$ 19,332	$ 59,624	$ 26,824

Liquidity and Capital Resources

Overview

Prior to our IPO, our sources of liquidity were based on cash flows from operations and funding from Diamondback.

Our sources of liquidity following our IPO have included cash generated from operations, borrowings under the credit agreement and the issuance of the notes. We believe that cash generated from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements and to make quarterly cash distributions. We do not have any commitment from Diamondback, our general partner or any of their respective affiliates to fund our cash flow deficits or provide other direct or indirect financial assistance to us. Should we require additional capital, the continued prolonged volatility in the capital, financial and/or credit markets due to the COVID-19 pandemic, the indirect effect of depressed commodity markets and/or adverse macroeconomic conditions may limit our access to, or increase our cost of, capital or make capital unavailable on terms acceptable to us or at all.

Cash Distributions

On February 13, 2020, the board of directors of our general partner revised our cash distribution policy to provide for the Operating Company to distribute $0.29 per Operating Company unit each quarter to its unitholders (including Diamondback and the Partnership), and for the Partnership to pay, to the extent legally available, cash distributions of $0.29 per common unit to common unitholders of record on the applicable record date within 65 days after the end of each quarter beginning with the quarter ended December 31, 2019. On October 29, 2020, the board of directors of our general partner further revised our cash distribution policy, reducing the quarterly distribution per Operating Company unit and common unit to $0.20 beginning with the quarter ended September 30, 2020.

We do not have a minimum quarterly distribution or employ structures intended to consistently maintain or increase distributions over time. The board of directors of our general partner may change our distribution policy at any time and from time to time. Our partnership agreement does not require us to pay distributions to our common unitholders on a quarterly or other basis.

Our Class B units are entitled to quarterly aggregate cash preferred distributions of 8% per annum on the $1.0 million capital contribution made in respect of such units, or $0.02 million in aggregate per quarter to all Class B units, and our general partner is entitled to a quarterly cash preferred distribution of 8% per annum on the $1.0 million capital contribution made in respect of its general partner interest, or $0.02 million per quarter. We are required to make these distributions in any quarter before making any distributions on our common units. Other than those amounts, neither holders of our general partner interest nor holders of our Class B units are entitled to receive or participate in distributions made by us.

On October 29, 2020, the board of directors of our general partner approved a cash distribution for the third quarter of 2020 of $0.20 per common unit, payable on November 23, 2020, to unitholders of record at the close of business on November 16, 2020.

Cash Flows

The following table presents our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Cash Flow Data:		
Net cash provided by (used in) operating activities	$ 177,374	$ 163,864
Net cash provided by (used in) investing activities	(187,208)	(263,667)
Net cash provided by (used in) financing activities	15,777	93,933
Net increase (decrease) in cash	$ 5,943	$ (5,870)

Operating Activities

Net cash provided by operating activities increased by $13.5 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. The increase was due primarily to changes in working capital, which include the timing of collections on accounts receivable and a decline in accrued capital expenditures resulting from the reduction in our capital expenditures budget in 2020. These increases were partially offset by an increase in direct operating expenses resulting from additional operations activity in 2020 as we placed additional assets into service and continued the build out of certain midstream assets that Diamondback contributed to us, and a reduction in revenues.

Investing Activities

Net cash used in investing activities was $187.2 million and $263.7 million during the nine months ended September 30, 2020 and 2019, respectively, and was primarily related to additions to property, plant and equipment and contributions to our equity method investments, which were partially offset by distributions from our Gray Oak and OMOG equity method investments. See Note 7—Equity Method Investments included in the Condensed Notes to the Consolidated Financial Statements included elsewhere in this report for further discussion.

Financing Activities

Net cash provided by financing activities was $15.8 million during the nine months ended September 30, 2020, and primarily related to proceeds from the notes offering of $500.0 million as well as proceeds from borrowing on the Operating Company's revolving credit facility of $179.0 million, which were largely offset by payments on the credit facility of $518.0 million, distributions of $132.0 million to our unitholders during the period and debt issuance costs incurred on the notes offering.

Net cash used in financing activities was $93.9 million during the nine months ended September 30, 2019, and primarily related to net proceeds from our IPO of common units of $719.4 million and net borrowings on the Operating Company's revolving credit facility of $103.0 million, partially offset by distributions to Diamondback of $726.5 million during the period.

Capital Requirements and Sources of Liquidity

The midstream energy business is capital intensive, requiring the maintenance of existing gathering systems and other midstream assets and facilities and the acquisition or construction and development of new gathering systems and other midstream assets and facilities. However, with respect to capital expenditures incurred for acquisitions or capital improvements, we have some discretion and control. In a time of reduced operational activity, we may choose to defer a portion of our budgeted capital expenditures until later periods to achieve the desired balance between sources and uses of liquidity and prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flow. Subject to financing alternatives, we may also increase our capital expenditures significantly to take advantage of opportunities we consider to be attractive. We consistently monitor and may adjust our projected capital expenditures in response to factors both within and outside our control.

For the nine months ended September 30, 2020, our total capital expenditures were $125.0 million, of which $102.9 million was related to produced water disposal assets, $5.9 million was related to crude oil gathering assets, $8.3 million was related to natural gas gathering assets, $7.7 million was related to sourced water assets and $0.2 million was related to real estate assets. We estimate that our total capital expenditures related to midstream assets for 2020 will be between $125 million and $150 million, excluding our anticipated capital commitments associated with our equity interest in certain pipeline projects. However, this range could decrease due to the continued impact, either directly or indirectly, of the COVID-19 pandemic or depressed crude oil prices on our business.

In 2019, we acquired equity interests in the EPIC, Gray Oak, Wink to Webster, Amarillo Rattler and OMOG joint ventures. Each of these joint ventures is accounted for using the equity method. The following table sets forth our cumulative capital contributions and anticipated future capital commitment for each of our equity method investment interests:

	Ownership Interest	Acquisition Date	Cumulative Capital Contributions to Date	Anticipated Future Capital Commitment
			(In thousands)	
EPIC Crude Holdings, LP	10 %	February 1, 2019	$ 135,034	$ 2,750
Gray Oak Pipeline, LLC	10 %	February 15, 2019	$ 142,096	$ —
Wink to Webster Pipeline LLC	4 %	July 30, 2019	$ 74,653	$ 33,347
OMOG JV LLC	60 %	October 1, 2019	$ 218,555	$ —
Amarillo Rattler, LLC	50 %	December 20, 2019	$ 3,700	$ 46,300

As of September 30, 2020, our anticipated future capital commitments for our equity method investments include $14.1 million for the remainder of 2020 and total $82.4 million in aggregate.

Based upon current expectations for 2020, we believe that our cash flows from operations, cash on hand and borrowing under our revolving credit facility will be sufficient to fund our operations and anticipated future capital commitments through the 12-month period following the filing of this report.

Indebtedness

The Operating Company's Revolving Credit Facility

The Operating Company's credit agreement provides for a revolving credit facility in the maximum credit amount of $600.0 million, which is expandable to $1.0 billion upon our election, subject to obtaining additional lender commitments and satisfaction of customary conditions. In July 2020, we loaned the gross proceeds from the notes offering discussed below to the Operating Company, which used such proceeds to pay down borrowings under its revolving credit facility. As of September 30, 2020, there was $85.0 million of outstanding borrowings, and $515.0 million available for future borrowings, under the credit agreement.

As of September 30, 2020, the Operating Company was in compliance with all financial covenants under the credit agreement.

On November 2, 2020, the Partnership and the Operating Company entered into a second amendment to the Operating Company's credit agreement with Wells Fargo, as the administrative agent, and the lenders party thereto. The second amendment permits us to conduct common unit repurchases in connection with the common unit repurchase program discussed above under "—Recent Developments—Implementation of Common Unit Repurchase Program."

For additional information regarding the revolving credit facility, see Note 8—Debt included in the Condensed Notes to the Consolidated Financial Statements included elsewhere in this report.

Notes Offering

On July 14, 2020, we completed an offering of our 5.625% senior notes due 2025 in the aggregate principal amount of $500.0 million. We received net proceeds of approximately $489.5 million from the notes offering. We loaned the gross proceeds of the notes offering to the Operating Company, which used the proceeds from the notes offering to repay then outstanding borrowings under its revolving credit facility.

The notes were issued under an indenture, dated as of July 14, 2020, among the Partnership, as issuer, the Operating Company, Tall Towers, Rattler OMOG LLC and Rattler Ajax Processing LLC, as guarantors, and Wells Fargo, as trustee, which we refer to as the indenture. Pursuant to the indenture, interest on the notes accrues at a rate of 5.625% per annum on the outstanding principal amount thereof from July 14, 2020, payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2021. The notes will mature on July 15, 2025.

The notes are our senior unsecured obligations and rank equally in right of payment with all of our existing and future senior indebtedness and senior in right of payment to any of our future subordinated indebtedness. The Operating Company, Tall Towers, Rattler OMOG LLC and Rattler Ajax Processing LLC are guaranteeing the notes pursuant to the indenture. Neither Diamondback nor the general partner will guarantee the notes. All of our future restricted subsidiaries that either guarantee the Operating Company's revolving credit facility or certain other debt or are classified as domestic restricted subsidiaries under the indenture will also guarantee the notes. The guarantees rank equally in right of payment with all of the existing and future senior unsecured indebtedness of such guarantor and senior in right of payment to any future subordinated indebtedness of such guarantor. The notes and the guarantees are effectively subordinated to all of our and each guarantor's secured indebtedness (including all borrowings and other obligations under the Operating Company's revolving credit facility and guarantees thereof) to the extent of the value of the collateral securing such indebtedness, and will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of any of our subsidiaries that do not guarantee the notes (other than liabilities owed to us).

We may on any one or more occasions redeem some or all of the notes at any time on or after July 15, 2022 at the redemption prices listed in the indenture. Prior to July 15, 2022, we may on any one or more occasions redeem all or a portion of the notes at a price equal to 100% of the principal amount of the notes plus a "make-whole" premium and accrued and unpaid interest to the redemption date. In addition, any time prior to July 15, 2022, we may on any one or more occasions redeem notes in an aggregate principal amount not to exceed 40% of the aggregate principal amount of the notes issued prior to such date at a redemption price of 105.625%, plus accrued and unpaid interest to the redemption date, with an amount not greater than the net cash proceeds from certain equity offerings.

If we experience a change of control (as defined in the indenture), we will be required to make an offer to repurchase the notes at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to but not including the date of repurchase. If we sell certain assets and fail to use the proceeds in a manner specified in the indenture, we will be required to use the remaining proceeds to make an offer to repurchase the notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase.

The indenture contains certain covenants that, subject to certain exceptions and qualifications, among other things, limit our ability and the ability of our restricted subsidiaries to incur or guarantee additional indebtedness or issue certain redeemable or preferred equity, make certain investments, declare or pay dividends or make distributions on equity interests or redeem, repurchase or retire equity interests or subordinated indebtedness, transfer or sell assets including equity of restricted subsidiaries, agree to payment restrictions affecting our restricted subsidiaries, consolidate, merge, sell or otherwise dispose of all or substantially all of our assets, enter into transactions with affiliates, incur liens and designate certain of our subsidiaries as unrestricted subsidiaries. Certain of these covenants are subject to termination upon the occurrence of certain events.

Intercompany Promissory Note

In connection with and upon closing of the notes offering, we loaned the gross proceeds from the notes offering to the Operating Company under the terms of that certain subordinated promissory note, dated as of July 14, 2020, made by the Operating Company payable to us, which we refer to as the intercompany promissory note. The intercompany promissory note requires the Operating Company to repay the intercompany loan to us on the same terms and in the same amounts as the notes and has the same maturity date, interest rate, change of control repurchase and redemption provisions. Our right to receive payment under the intercompany promissory note is contractually subordinated to the Operating Company’s guarantee of the notes and its obligations under its revolving credit facility.

Contractual Obligations

Except as may be discussed in Note 8—Debt and Note 15—Commitments and Contingencies included in the Condensed Notes to the Consolidated Financial Statements included elsewhere in this report, there were no material changes to our contractual obligations and other commitments, from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Critical Accounting Policies

There have been no changes in our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Off-Balance Sheet Arrangements

We currently have no significant off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including the effects of adverse changes in commodity prices and interest rates as described below. The primary objective of the following information is to provide quantitative and qualitative information about our potential exposure to market risks. The term "market risk" refers to the risk of loss arising from adverse changes in oil and natural gas prices and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses.

Commodity Price Risk

We currently generate the majority of our revenues pursuant to fee-based agreements with Diamondback under which we are paid based on volumetric fees, rather than the underlying value of the commodity. Consequently, our existing operations and cash flows have little direct exposure to commodity price risk. However, Diamondback and our other customers are exposed to commodity price risk, and extended reduction in commodity prices could reduce the production volumes available for our midstream services in the future below expected levels. Although we intend to maintain fee-based pricing terms on both new contracts and existing contracts for which prices have not yet been set, our efforts to negotiate such terms may not be successful, which could have a materially adverse effect on our business.

We may acquire or develop additional midstream assets in a manner that increases our exposure to commodity price risk. Future exposure to the volatility of crude oil, natural gas and natural gas liquids prices could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make cash distributions to our unitholders.

Credit Risk

We are subject to counterparty credit risk related to our midstream commercial contracts, lease agreements and joint venture receivables. We derive substantially all of our revenue from our commercial agreements with Diamondback. As a result, we are directly affected by changes to Diamondback's business related to operational and business risks or otherwise. We cannot predict the extent to which Diamondback's business would be impacted if conditions in the energy industry were to deteriorate, nor can we estimate the impact such conditions would have on Diamondback's ability to execute its drilling and development program or to perform under our agreements. While we monitor the creditworthiness of purchasers, lessees and joint venture partners with which we conduct business, we are unable to predict sudden changes in solvency of these counterparties and may be exposed to associated risks. Nonperformance by a counterparty could result in significant financial losses.

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates on our indebtedness under the Operating Company's credit agreement. The terms of the credit agreement provide for interest at a rate elected by the Operating Company that is based on the prime rate or LIBOR, in each case plus margins ranging from 0.250% to 1.250% for prime-based loans and 1.250% to 2.250% per annum for LIBOR loans, in each case depending on the Consolidated Total Leverage Ratio (as defined in the credit agreement). The Operating Company is obligated to pay a quarterly commitment fee ranging from 0.250% to 0.375% per annum on the unused portion of the commitment, which fee is also dependent on the Consolidated Total Leverage Ratio.

As of September 30, 2020, we had $85.0 million of outstanding borrowings and $515.0 million available for future borrowings under the credit agreement. During the three and nine months ended September 30, 2020, the weighted average interest rate on borrowings under the credit agreement was 1.46% and 2.18%, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures. Under the direction of the Chief Executive Officer and Chief Financial Officer of our general partner, we have established disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer of our general partner, as appropriate to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

As of September 30, 2020, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of our general partner, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Exchange Act. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer of our general partner have concluded that as of September 30, 2020, our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting. There have not been any changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Due to the nature of our business, we may be involved in various routine legal proceedings, disputes and claims from time to time arising in the ordinary course of our business activities. In the opinion of our management, there are currently no such matters that, if decided adversely, will have a material adverse effect on our financial condition, results of operations or cash flows. See Note 15—Commitments and Contingencies included in the Condensed Notes to the Consolidated Financial Statements included elsewhere in this report.

ITEM 1A. RISK FACTORS

Our business faces many risks. Any of the risks discussed in this report and our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also materially impair our business operations, financial condition or future results.

As of the date of this filing, we continue to be subject to the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 26, 2020, and in Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, filed with the SEC on May 8, 2020. Depending on the duration of the COVID-19 pandemic and its severity and related economic repercussions, however, the negative impact of many of the risks discussed in such reports may be heightened or exacerbated. For a discussion of the recent trends and uncertainties impacting our business, see also “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments” and “—Factors Impacting Our Business.”

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
2.1#	Amended and Restated Contribution Agreement among Diamondback Energy, Inc., Diamondback E&P LLC, Diamondback O&G LLC and Rattler Midstream Operating LLC (formerly Rattler Midstream LLC), dated as of July 31, 2018 (incorporated by reference to Exhibit 2.1 of Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on January 22, 2019).
2.2#	Contribution Agreement among Diamondback Energy, Inc., Diamondback E&P LLC, Energen Resources Corporation, Rattler Midstream Operating LLC and Tall City Towers LLC, effective as of January 1, 2019 (incorporated by reference to Exhibit 2.2 of Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on February 20, 2019).
3.1	Certificate of Limited Partnership of Rattler Midstream LP (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on August 7, 2018).
3.2	Certificate of Amendment to the Certificate of Limited Partnership of Rattler Midstream LP (incorporated by reference to Exhibit 3.2 of Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on January 22, 2019).
3.3	First Amended and Restated Agreement of Limited Partnership of Rattler Midstream LP, dated May 28, 2019 (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on May 29, 2019).
3.4	Certificate of Formation of Rattler Midstream Operating LLC (formerly White Fang Energy LLC) (incorporated by reference to Exhibit 3.3 of the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on August 7, 2018).
3.5	Certificate of Amendment to the Certificate of Formation of Rattler Midstream Operating LLC (formerly White Fang Energy LLC) (incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on August 7, 2018).
3.6	Certificate of Amendment to the Certificate of Formation of Rattler Midstream Operating LLC (formerly Rattler Midstream LLC) (incorporated by reference to Exhibit 3.6 of Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-226645) filed on January 22, 2019).
3.7	Second Amended and Restated Limited Liability Company Agreement of Rattler Midstream Operating LLC (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on May 29, 2019).
4.1	Indenture, dated as of July 14, 2020, among Rattler Midstream LP, as issuer, Rattler Midstream Operating LLC, Tall City Towers LLC, Rattler OMOG LLC and Rattler Ajax Processing LLC, as guarantors, and Wells Fargo Bank, National Association, as trustee (including the form of Rattler Midstream LP's 5.625% Senior Notes due 2025) (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on July 14, 2020).
10.1	Purchase Agreement, dated July 9, 2020, by and among Rattler Midstream LP, Rattler Midstream GP LLC, Rattler Midstream Operating LLC, Tall City Towers LLC, Rattler OMOG LLC, Rattler Ajax Processing LLC and Goldman Sachs & Co. LLC, as representative of the several initial purchasers named therein (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on July 14, 2020).
10.2	Subordinated Promissory Note, dated as of July 14, 2020, made by Rattler Midstream Operating LLC payable to Rattler Midstream LP (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (File 001-38919) filed on July 14, 2020).
10.3*	Second Amendment, dated as of November 2, 2020, to the Credit Agreement, dated May 18, 2019, as amended on October 23, 2019, by and among Rattler Midstream Operating LLC, as borrower, Rattler Midstream LP, as parent, Wells Fargo Bank, National Association, as the administrative agent, and certain lenders from time to time party thereto.
31.1*	Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit Number	Description
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statement of Changes in Unitholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Condensed Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

The schedules (or similar attachments) referenced in this agreement have been omitted in accordance with Item 601(a)(5) of Regulation S-K because the information contained therein is not material and is not otherwise publicly disclosed. A copy of any omitted schedule (or similar attachment) will be furnished supplementally to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RATTLER MIDSTREAM LP

By: RATTLER MIDSTREAM GP LLC,
its general partner

Date:	November 5, 2020	By:	/s/ Travis D. Stice Travis D. Stice Chief Executive Officer (Principal Executive Officer)
Date:	November 5, 2020	By:	/s/ Teresa L. Dick Teresa L. Dick Chief Financial Officer (Principal Financial Officer)

Exhibit 10.3

SECOND AMENDMENT TO

CREDIT AGREEMENT
DATED AS OF
NOVEMBER 2, 2020

AMONG

RATTLER MIDSTREAM LP,
AS PARENT,

RATTLER MIDSTREAM OPERATING LLC,
AS BORROWER,

WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS ADMINISTRATIVE AGENT,

THE LENDERS PARTY HERETO, AND

WELLS FARGO SECURITIES, LLC,
CREDIT SUISSE SECURITIES (USA) LLC,
JPMORGAN CHASE BANK, N.A., AND
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
AS JOINT LEAD ARRANGERS AND JOINT BOOKRUNNERS

This **SECOND AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), dated as of November 2, 2020, is among: Rattler Midstream LP, a Delaware limited partnership (the "Parent"); Rattler Midstream Operating LLC, a Delaware limited liability company (the "Borrower"); each of the undersigned guarantors (together with the Parent, the "Guarantors"); each of the Lenders (as such term is defined in the Credit Agreement referred to below) party hereto; and Wells Fargo Bank, National Association, as administrative agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

RECITALS

A. The Parent, the Borrower, the Administrative Agent, and the Lenders are parties to that certain Credit Agreement, dated as of May 28, 2019 (as amended and supplemented prior to the date hereof, the "Credit Agreement"), pursuant to which the Lenders have made certain credit available to and on behalf of the Borrower.

B. The Borrower has requested and the Lenders signatory hereto have agreed to amend certain provisions of the Credit Agreement as set forth herein.

C. Now, therefore, to induce the Administrative Agent and the Lenders to enter into this Amendment and in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given such term in the Credit Agreement as amended by this Amendment. Unless otherwise indicated, all section references in this Amendment refer to sections of the Credit Agreement.

Section 2. Amendments to Credit Agreement. In reliance on the representations, warranties, covenants, and agreements contained in this Amendment, and subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, the Credit Agreement is hereby amended, effective as of the Amendment Effective Date (as defined below), as follows:

2.1 Amendments to Section 1.02.

(a) The following definitions are hereby amended and restated in their entirety to read as follows:

"Bail-In Action" means the exercise of any Write-Down and Conversion Powers by the applicable Resolution Authority in respect of any liability of an Affected Financial Institution.

"Bail-In Legislation" means (a) with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law, regulation, rule or requirement for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule and (b) with respect to the United Kingdom, Part I of the United Kingdom Banking Act 2009 (as amended from time to time) and any other law, regulation or rule applicable in the United Kingdom relating to the resolution of unsound or failing banks, investment firms or other financial institutions or their affiliates (other than through liquidation, administration or other insolvency proceedings).

"EU Bail-In Legislation Schedule" means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

"Loan Documents" means this Agreement, the First Amendment, the Second Amendment, the Notes, the Letter of Credit Agreements, the Letters of Credit, and the Security Instruments.

"Write-Down and Conversion Powers" means, (a) with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule, and (b) with respect to the United Kingdom, any powers of the applicable Resolution Authority under the Bail-In Legislation to cancel, reduce, modify or change the form of a liability of any UK Financial Institution or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability or any of the powers under that Bail-In Legislation that are related to or ancillary to any of those powers.

(b) The following definitions are hereby added where alphabetically appropriate to read as follows:

"Affected Financial Institution" means (a) any EEA Financial Institution or (b) any UK Financial Institution.

"Resolution Authority" means an EEA Resolution Authority or, with respect to any UK Financial Institution, a UK Resolution Authority.

"Second Amendment" means that certain Second Amendment to Credit Agreement, dated as of the Second Amendment Effective Date, by and among the Parent, the Borrower, the other Guarantors party thereto, the Administrative Agent, and the Lenders party thereto.

"Second Amendment Effective Date" means November 2, 2020.

"UK Financial Institution" means any BRRD Undertaking (as such term is defined under the PRA Rulebook (as amended form time to time) promulgated by the United Kingdom Prudential Regulation Authority) or any person falling within IFPRU 11.6 of the FCA Handbook (as amended from time to time) promulgated by the United Kingdom Financial Conduct Authority, which includes certain credit institutions and investment firms, and certain affiliates of such credit institutions or investment firms.

"UK Resolution Authority" means the Bank of England or any other public administrative authority having responsibility for the resolution of any UK Financial Institution.

2.2 Amendments to Section 9.04(a). Section 9.04(a) of the Credit Agreement is hereby amended by (a) deleting the reference to "and" at the end of clause (viii) therein, (b) replacing the reference to "." with "; and" at the end of clause (ix) therein and (c) adding a new clause (x) thereto immediately following clause (ix) thereof to read as follows:

(x) commencing on the Second Amendment Effective Date, (1) the Parent may make Restricted Payments other than dividends and distributions in an aggregate amount not to exceed $200,000,000; *provided* that both prior to and after giving pro forma effect thereto (including any Borrowings made in connection with any such Restricted Payment), (A) no Default or Event of Default has occurred and is continuing, (B) the Consolidated Total Leverage Ratio does not exceed 3.00 to 1.00, and (C) Availability is equal to or greater than $400,000,000 and (2) the Borrower may make Restricted Payments to the Parent.

2.3 Amendment to Section 12.17. Section 12.17 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

Section 12.17 Acknowledgement and Consent to Bail-In of Affected Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Affected Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of the applicable Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by the applicable Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an Affected Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such Affected Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of the applicable Resolution Authority.

Section 3. Conditions Precedent. This Amendment shall become effective on the date (such date, the "Amendment Effective Date") when each of the following conditions is satisfied (or waived in accordance with Section 12.02 of the Credit Agreement):

3.1 The Administrative Agent shall have received from Lenders constituting Majority Lenders, the Guarantors, and the Borrower, counterparts (in such number as may be requested by the Administrative Agent) of this Amendment signed on behalf of such Person.

3.2 The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable on or prior to the date hereof, including, to the extent invoiced, reimbursement or payment of all documented out-of-pocket expenses required to be reimbursed or paid by the Borrower under the Credit Agreement.

3.3 No Default shall have occurred and be continuing as of the date hereof, after giving effect to the terms of this Amendment.

The Administrative Agent is hereby authorized and directed to declare this Amendment to be effective when it has received documents confirming or certifying, to the satisfaction of the Administrative Agent, compliance with the conditions set forth in this Section 3 or the waiver of such conditions as permitted in Section 12.02 of the Credit Agreement. Such declaration shall be final, conclusive and binding upon all parties to the Credit Agreement for all purposes.

Section 4. Miscellaneous.

4.1 Confirmation. The provisions of the Credit Agreement (as amended by this Amendment) shall remain in full force and effect following the effectiveness of this Amendment.

4.2 Ratification and Affirmation; Representations and Warranties. Each of the Guarantors and the Borrower hereby (a) ratifies and affirms its obligations under, and acknowledges its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect as expressly amended hereby and (b) represents and warrants to the Lenders that as of the date hereof, after giving effect to the terms of this Amendment:

(i) all of the representations and warranties contained in each Loan Document to which it is a party are true and correct in all material respects (or, if already qualified by materiality, Material Adverse Effect or a similar qualification, true and correct in all respects), except to the extent any such representations and warranties are expressly limited to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (or, if already qualified by materiality, Material Adverse Effect or a similar qualification, true and correct in all respects) as of such specified earlier date;

(ii) no Default or Event of Default has occurred and is continuing; and

(iii) no event or events have occurred which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect.

4.3 Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of this Amendment by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart hereof.

4.4 **NO ORAL AGREEMENT. THIS AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND THEREWITH REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

4.5 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

4.6 Payment of Expenses. To the extent required pursuant to Section 12.03 of the Credit Agreement, the Borrower agrees to pay or reimburse the Administrative Agent for all of its reasonable out-of-pocket expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the reasonable fees, charges and disbursements of counsel to the Administrative Agent.

4.7 Severability. Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4.8 Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

4.9 Loan Document. This Amendment is a Loan Document.

[SIGNATURES BEGIN NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

BORROWER: RATTLER MIDSTREAM OPERATING LLC

By: /s/ Teresa L. Dick
Name: Teresa L. Dick
Title: Chief Financial Officer, Executive Vice President and Assistant Secretary

GUARANTORS: RATTLER MIDSTREAM LP

By: Rattler Midstream GP LLC, its General Partner

By: /s/ Teresa L. Dick
Name: Teresa L. Dick
Title: Chief Financial Officer, Executive Vice President and Assistant Secretary

TALL CITY TOWERS LLC

By: /s/ Teresa L. Dick
Name: Teresa L. Dick
Title: Chief Financial Officer, Executive Vice President and Assistant Secretary

RATTLER OMOG LLC

By: Rattler Midstream Operating LLC, its sole member

By: /s/ Teresa L. Dick
Name: Teresa L. Dick
Title: Chief Financial Officer, Executive Vice President and Assistant Secretary

RATTLER AJAX PROCESSING LLC

By: Rattler Midstream Operating LLC, its sole member

By: /s/ Teresa L. Dick

Name: Teresa L. Dick

Title: Chief Financial Officer, Executive Vice President and Assistant Secretary

ADMINISTRATIVE AGENT, ISSUING BANK AND LENDER:	WELLS FARGO BANK, NATIONAL ASSOCATION, as Administrative Agent, Issuing Bank and as a Lender

By: /s/ Andrew Ostrov
Name: Andrew Ostrov
Title: Director

LENDERS: BANK OF AMERICA, N.A.

By: /s/ Ronald E. McKaig
Name: Ronald E. McKaig
Title: Managing Director

LENDERS:

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH

By: /s/ Nupur Kumar
Name: Nupur Kumar
Title: Authorized Signatory

By: /s/ Andrew Griffin
Name: Andrew Griffin
Title: Authorized Signatory

LENDERS: JPMORGAN CHASE BANK, N.A.

By: /s/ Michael A. Kamauf
Name: Michael A. Kamauf
Title: Authorized Officer

LENDERS:

CITIBANK, N.A.

By: /s/ Jeff Ard
Name: Jeff Ard
Title: Vice President

LENDERS: PNC BANK, NATIONAL ASSOCIATION

By: /s/ John Engel
Name: John Engel
Title: Vice President

SIGNATURE PAGE
SECOND AMENDMENT TO CREDIT AGREEMENT

LENDERS: BARCLAYS BANK PLC

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis

Title: Director

SIGNATURE PAGE
SECOND AMENDMENT TO CREDIT AGREEMENT

LENDERS:

CAPITAL ONE, NATIONAL ASSOCIATION

By: /s/ Christopher Kuna

Name: Christopher Kuna

Title: Senior Director

SIGNATURE PAGE
SECOND AMENDMENT TO CREDIT AGREEMENT

LENDERS:

TRUIST BANK, successor by merger to SunTrust Bank, as a Lender

By: /s/ Samantha Sanford
Name: Samantha Sanford
Title: Vice President

LENDERS:

THE BANK OF NOVA SCOTIA, HOUSTON BRANCH

By: /s/ Scott Nickel
Name: Scott Nickel
Title: Director

LENDERS: U.S. BANK NATIONAL ASSOCIATION

By: /s/ Bruce E. Hernandez
Name: Bruce E. Hernandez
Title: Senior Vice President

LENDERS: GOLDMAN SACHS BANK USA

By: /s/ Mahesh Mohan
Name: Mahesh Mohan
Title: Authorized Signatory

SIGNATURE PAGE
SECOND AMENDMENT TO CREDIT AGREEMENT

EXHIBIT 31.1

CERTIFICATION

I, Travis D. Stice, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rattler Midstream LP (the "registrant").
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 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 15d-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 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: November 5, 2020

/s/ Travis D. Stice
Travis D. Stice
Chief Executive Officer
Rattler Midstream GP LLC
(as general partner of Rattler Midstream LP)

EXHIBIT 31.2

CERTIFICATION

I, Teresa L. Dick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rattler Midstream LP (the “registrant”).
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 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 15d-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 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: November 5, 2020

/s/ Teresa L. Dick
Teresa L. Dick
Chief Financial Officer
Rattler Midstream GP LLC
(as general partner of Rattler Midstream LP)

EXHIBIT 32.1

CERTIFICATION OF PERIOD REPORT

In connection with the Quarterly Report on Form 10-Q of Rattler Midstream LP (the “Partnership”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Travis D. Stice, Chief Executive Officer of Rattler Midstream GP LLC, the general partner of the Partnership, and Teresa L. Dick, Chief Financial Officer of Rattler Midstream GP LLC, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date:	November 5, 2020	/s/ Travis D. Stice Travis D. Stice Chief Executive Officer Rattler Midstream GP LLC (as general partner of Rattler Midstream LP)
Date:	November 5, 2020	/s/ Teresa L. Dick Teresa L. Dick Chief Financial Officer Rattler Midstream GP LLC (as general partner of Rattler Midstream LP)