MARTIN MIDSTREAM PARTNERS LP
Form 10-Q
October 26, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission File Number
000-50056

MARTIN MIDSTREAM PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**05-0527861**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4200 Stone Road
Kilgore, Texas 75662
(Address of principal executive offices, zip code)

Registrant’s telephone number, including area code: **(903) 983-6200**

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 x No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of the registrant’s Common Units outstanding at October 26, 2016, was 35,454,462.

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Assets		
Cash	$ 10	$ 31
Accounts and other receivables, less allowance for doubtful accounts of $453 and $430, respectively	46,327	74,355
Product exchange receivables	159	1,050
Inventories	107,476	75,870
Due from affiliates	8,194	10,126
Fair value of derivatives	89	675
Other current assets	4,439	5,718
Assets held for sale	73,197	—
Total current assets	239,891	167,825
Property, plant and equipment, at cost	1,301,233	1,387,814
Accumulated depreciation	(411,821)	(404,574)
Property, plant and equipment, net	889,412	983,240
Goodwill	17,296	23,802
Investment in WTLPG	129,794	132,292
Note receivable - Martin Energy Trading LLC	15,000	15,000
Other assets, net	48,951	58,314
Total assets	$ 1,340,344	$ 1,380,473
Liabilities and Partners' Capital		
Trade and other accounts payable	$ 60,462	$ 81,180
Product exchange payables	10,188	12,732
Due to affiliates	3,879	5,738
Income taxes payable	550	985
Fair value of derivatives	209	—
Other accrued liabilities	14,804	18,533
Liabilities held for sale	23,400	—
Total current liabilities	113,492	119,168
Long-term debt, net	913,504	865,003
Fair value of derivatives	—	206
Other long-term obligations	2,435	2,217
Total liabilities	1,029,431	986,594
Commitments and contingencies (Note 16)		
Partners' capital	310,913	393,879
Total partners' capital	310,913	393,879
Total liabilities and partners' capital	$ 1,340,344	$ 1,380,473

See accompanying notes to consolidated and condensed financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars and units in thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Terminalling and storage *	$30,770	$33,578	$93,565	$100,828
Marine transportation *	13,846	18,977	44,531	59,956
Natural gas services*	14,618	17,120	46,118	50,171
Sulfur services	2,700	3,090	8,100	9,270
Product sales: *				
Natural gas services	57,378	86,714	207,368	330,803
Sulfur services	26,396	33,213	105,459	128,544
Terminalling and storage	28,829	33,329	85,349	102,901
	112,603	153,256	398,176	562,248
Total revenues	174,537	226,021	590,490	782,473
Costs and expenses:				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services *	50,658	80,709	184,781	307,039
Sulfur services *	21,510	26,144	73,734	95,685
Terminalling and storage *	23,540	28,237	70,306	87,977
	95,708	135,090	328,821	490,701
Expenses:				
Operating expenses *	39,488	45,310	121,542	138,399
Selling, general and administrative *	8,049	8,666	24,364	26,507
Loss on impairment of goodwill	—	—	4,145	—
Depreciation and amortization	22,129	23,335	66,266	68,737
Total costs and expenses	165,374	212,401	545,138	724,344
Other operating income (loss)	13	(1,586)	(1,582)	(1,763)
Operating income	9,176	12,034	43,770	56,366
Other income (expense):				
Equity in earnings of WTLPG	1,120	2,363	3,602	5,752
Interest expense, net	(11,779)	(11,994)	(34,046)	(32,465)
Gain on retirement of senior unsecured notes	—	728	—	728
Other, net	730	399	866	757
Total other expense	(9,929)	(8,504)	(29,578)	(25,228)
Net income (loss) before taxes	(753)	3,530	14,192	31,138
Income tax expense	(180)	(200)	(422)	(814)
Income (loss) from continuing operations	(933)	3,330	13,770	30,324
Income from discontinued operations, net of income taxes	—	—	—	1,215
Net income (loss)	(933)	3,330	13,770	31,539

Less general partner's interest in net (income) loss	18	(3,959)	(8,062)	(12,310)
Less (income) loss allocable to unvested restricted units	3	(16)	(36)	(127)
Limited partners' interest in net income (loss)	$ (912)	$ (645)	$ 5,672	$ 19,102

See accompanying notes to consolidated and condensed financial statements.

*Related Party Transactions Shown Below

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MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars and units in thousands, except per unit amounts)

*Related Party Transactions Included Above

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenues:*				
Terminalling and storage	$20,649	$15,091	$62,197	$58,626
Marine transportation	4,861	6,552	17,308	19,919
Natural gas services	132	—	574	—
Product Sales	723	1,731	2,391	5,079
Costs and expenses:*				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services	2,946	6,470	10,829	20,198
Sulfur services	3,678	3,387	11,300	10,629
Terminalling and storage	3,766	3,227	11,232	14,261
Expenses:				
Operating expenses	17,810	19,290	53,255	58,605
Selling, general and administrative	5,748	5,922	18,091	17,765

See accompanying notes to consolidated and condensed financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars and units in thousands, except per unit amounts)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Allocation of net income (loss) attributable to:				
Limited partner interest:				
Continuing operations	$(912)	$(645)	$5,672	$18,366
Discontinued operations	—	—	—	736
	$(912)	$(645)	$5,672	$19,102
General partner interest:				
Continuing operations	$(18)	$3,959	$8,062	$11,836
Discontinued operations	—	—	—	474
	$(18)	$3,959	$8,062	$12,310
Net income (loss) per unit attributable to limited partners:				
Basic:				
Continuing operations	$(0.03)	$(0.02)	$0.16	$0.52
Discontinued operations	—	—	—	0.02
	$(0.03)	$(0.02)	$0.16	$0.54
Weighted average limited partner units - basic	35,346	35,308	35,358	35,309
Diluted:				
Continuing operations	$(0.03)	$(0.02)	$0.16	$0.52
Discontinued operations	—	—	—	0.02
	$(0.03)	$(0.02)	$0.16	$0.54
Weighted average limited partner units - diluted	35,346	35,308	35,381	35,369

See accompanying notes to consolidated and condensed financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF CAPITAL
(Unaudited)
(Dollars in thousands)

	Partners' Capital Common Limited		General Partner Amount	Total
	Units	Amount		
Balances - January 1, 2015	35,365,912	$470,943	$14,728	$485,671
Net income	—	19,229	12,310	31,539
Issuance of common units, net	—	(330)	—	(330)
Issuance of restricted units	91,950	—	—	—
Forfeiture of restricted units	(1,250)	—	—	—
General partner contribution	—	—	55	55
Cash distributions	—	(86,420)	(13,526)	(99,946)
Reimbursement of excess purchase price over carrying value of acquired assets	—	1,500	—	1,500
Unit-based compensation	—	1,080	—	1,080
Balances - September 30, 2015	35,456,612	$406,002	$13,567	$419,569
Balances - January 1, 2016	35,456,612	$380,845	$13,034	$393,879
Net income	—	5,708	8,062	13,770
Issuance of common units, net of issuance related costs	—	(28)	—	(28)
Issuance of restricted units	13,800	—	—	—
Forfeiture of restricted units	(500)	—	—	—
Cash distributions	—	(86,410)	(13,680)	(100,090)
Unit-based compensation	—	712	—	712
Reimbursement of excess purchase price over carrying value of acquired assets	—	3,000	—	3,000
Purchase of treasury units	(15,200)	(330)	—	(330)
Balances - September 30, 2016	35,454,712	$303,497	$7,416	$310,913

See accompanying notes to consolidated and condensed financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 13,770	$ 31,539
Less: Income from discontinued operations, net of income taxes	—	(1,215)
Net income from continuing operations	13,770	30,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,266	68,737
Amortization and write-off of deferred debt issuance costs	2,965	4,142
Amortization of premium on notes payable	(230)	(246)
Loss on sale of property, plant and equipment	1,582	1,751
Loss on impairment of goodwill	4,145	—
Gain on retirement of senior unsecured notes	—	(728)
Equity in earnings of unconsolidated entities	(3,602)	(5,752)
Derivative income	(1,867)	(2,137)
Net cash received for commodity derivatives	1,666	—
Net cash received for interest rate derivatives	160	—
Net premiums received on derivatives that settled during the year on interest rate swaption contracts	630	2,495
Unit-based compensation	712	1,080
Cash distributions from WTLPG	6,100	7,800
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:		
Accounts and other receivables	28,028	69,967
Product exchange receivables	891	909
Inventories	(31,606)	(3,134)
Due from affiliates	1,932	3,348
Other current assets	(4,693)	354
Trade and other accounts payable	(15,782)	(59,124)
Product exchange payables	(2,544)	6,360
Due to affiliates	(1,859)	(1,935)
Income taxes payable	(435)	(386)
Other accrued liabilities	(3,729)	(8,490)
Change in other non-current assets and liabilities	(765)	(999)
Net cash provided by continuing operating activities	61,735	114,336
Net cash used in discontinued operating activities	—	(1,352)
Net cash provided by operating activities	61,735	112,984
Cash flows from investing activities:		
Payments for property, plant and equipment	(31,884)	(40,123)
Acquisition of intangible assets	(2,150)	—
Payments for plant turnaround costs	(1,614)	(1,754)
Proceeds from sale of property, plant and equipment	2,174	1,985
Proceeds from involuntary conversion of property, plant and equipment	23,400	—
Net cash used in continuing investing activities	(10,074)	(39,892)
Net cash provided by discontinued investing activities	—	41,250

Net cash provided by (used in) investing activities	(10,074)	1,358
Cash flows from financing activities:		
Payments of long-term debt	(219,700)	(224,310)
Proceeds from long-term debt	270,700	209,000
Proceeds from issuance of common units, net of issuance related costs	(28)	(330)
General partner contribution	—	55
Purchase of treasury units	(330)	—
Payment of debt issuance costs	(5,234)	(340)
Reimbursement of excess purchase price over carrying value of acquired assets	3,000	1,500
Cash distributions paid	(100,090)	(99,946)
Net cash used in financing activities	(51,682)	(114,371)
Net decrease in cash	(21)	(29)
Cash at beginning of period	31	42
Cash at end of period	$ 10	$ 13
Non-cash additions to property, plant and equipment	$ 1,068	$ 4,389

See accompanying notes to consolidated and condensed financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2016
(Unaudited)

(1) General

Martin Midstream Partners L.P. (the "Partnership") is a publicly traded limited partnership with a diverse set of operations focused primarily in the United States ("U.S.") Gulf Coast region. Its four primary business lines include: natural gas services, including liquids transportation and distribution services and natural gas storage; terminalling and storage services for petroleum products and by-products including the refining of naphthenic crude oil, blending and packaging of finished lubricants; sulfur and sulfur-based products processing, manufacturing, marketing and distribution; and marine transportation services for petroleum products and by-products.

The Partnership’s unaudited consolidated and condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and United States Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial reporting. Accordingly, these financial statements have been condensed and do not include all of the information and footnotes required by U.S. GAAP for annual audited financial statements of the type contained in the Partnership’s annual reports on Form 10-K. In the opinion of the management of the Partnership’s general partner, all adjustments and elimination of significant intercompany balances necessary for a fair presentation of the Partnership’s financial position, results of operations, and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for such interim periods are not necessarily indicative of the results of operations for the full year. These financial statements should be read in conjunction with the Partnership’s audited consolidated financial statements and notes thereto included in the Partnership’s annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the "SEC") on February 29, 2016, as amended by Amendment No. 1 on Form 10-K/A for the year ended December 31, 2015 filed on March 30, 2016.

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated and condensed financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

As discussed further in Note 3, on October 14, 2016, the Partnership entered into a definitive agreement with NuStar Logistics, L.P. (“NuStar”) to sell its 900,000 barrel crude oil storage terminal, its refined product barge terminal, certain pipelines and related easements as well as dockage and trans-loading assets located in Corpus Christi, Texas ("CCCT Assets") for gross consideration of $107,000 plus the reimbursement of certain capital expenditures and prepaid items. The Partnership expects to receive net proceeds of approximately $93,000 after transaction fees and expenses as well as the application of certain net cash payments previously received by the Partnership in conjunction with its mandated relocation of certain dockage assets to the purchase price in the amount of $13,400. The Partnership expects to close the transaction prior to December 31, 2016. Proceeds from the sale will be used to reduce outstanding borrowings under the Partnership's revolving credit facility. The Partnership has classified the CCCT Assets, and the related liabilities, as held for sale at September 30, 2016.

(2) New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted. The Partnership does not anticipate that ASU 2016-15 will have a material effect on its consolidated and condensed financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption of this standard is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Partnership is evaluating the effect that ASU 2016-02 will have on its consolidated and condensed financial statements and related disclosures.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
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(Unaudited)

In July 2015, the FASB issued ASU No. 2015-11, *Inventory: Simplifying the Measurement of Inventory,* which applies only to inventory for which cost is determined by methods other than last-in, first-out and the retail inventory method. This includes inventory that is measured using first-in, first-out or average cost. Inventory within the scope of this standard is required to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard will be effective on January 1, 2017. The Partnership does not anticipate that ASU 2015-11 will have a material effect on its consolidated and condensed financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Partnership on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Partnership is evaluating the effect that ASU 2014-09 will have on its consolidated and condensed financial statements and related disclosures. The Partnership has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

(3) Divestitures and discontinued operations

On October 14, 2016, the Partnership entered into a definitive agreement with NuStar to sell its CCCT Assets for gross consideration of $107,000 plus the reimbursement of certain capital expenditures and prepaid items. The Partnership expects to receive net proceeds of approximately $93,000 after transaction fees and expenses as well as the application of certain net cash payments previously received by the Partnership in conjunction with its mandated relocation of certain dockage assets to the purchase price in the amount of $13,400. The Partnership expects to close the transaction prior to December 31, 2016. Proceeds from the sale will be used to reduce outstanding borrowings under the Partnership's revolving credit facility. The Partnership expects to record a gain from the divestiture. The Partnership has classified the CCCT Assets, and the related liabilities, as held for sale at September 30, 2016, as follows:

	2016
Assets:	
Other assets	$4,333
Property, plant, and equipment	91,594
Accumulated depreciation	(25,091)
Goodwill	2,361
Assets held for sale	$73,197
Liabilities:	
Current liabilities	$23,400
Liabilities held for sale	$23,400

The divestiture of the CCCT Assets does not qualify for discontinued operations presentation under the guidance of ASC 205-20.

Floating Storage Assets. On February 12, 2015, the Partnership sold all six of its 16,101 barrel liquefied petroleum gas ("LPG") pressure barges, (collectively referred to as the "Floating Storage Assets"). These assets were acquired on February 28, 2013. On December 19, 2014, the Partnership made the decision to dispose of the Floating Storage Assets. As a result, the Partnership classified the Floating Storage Assets as held for sale at December 31, 2014 and has presented the results of operations and cash flows of the Floating Storage Assets as discontinued operations for the three and nine months ended September 30, 2016 and 2015. The Partnership has retrospectively adjusted its prior period consolidated financial statements to comparably classify the amounts related to the operations and cash flows of the Floating Storage Assets as discontinued operations. The Floating Storage Assets were presented as discontinued operations under the guidance prior to the Partnership's adoption of ASU 2014-08 related to discontinued operations. The adoption of the amended guidance was effective for the Partnership January 1, 2015.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2016
(Unaudited)

The Floating Storage Assets' operating results, which are included in income from discontinued operations, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total revenues from third parties[1]	$ —	$ —	$ —	$ 791
Total costs and expenses and other, net, excluding depreciation and amortization	—	—	—	1,038
Depreciation and amortization	—	—	—	—
Other operating income[2]	—	—	—	1,462
Income from discontinued operations before income taxes	—	—	—	1,215
Income tax expense	—	—	—	—
Income from discontinued operations, net of income taxes	$ —	$ —	$ —	$ 1,215

[1] All revenues for the nine months ended September 30, 2015 were from third parties.

[2] Other operating income represents the gain on the disposition of the Floating Storage Assets.

(4) Inventories

Components of inventories at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
Natural gas liquids	$ 65,107	$ 20,959
Sulfur	6,959	13,812
Sulfur based products	12,541	19,400
Lubricants	19,918	18,675
Other	2,951	3,024
	$ 107,476	$ 75,870

(5) Investment in West Texas LPG Pipeline L.P.

The Partnership owns a 19.8% general partnership and 0.2% limited partnership interest in West Texas LPG Pipeline L.P. ("WTLPG"). ONEOK Partners, L.P. is the operator of the assets. WTLPG owns an approximate 2,300 mile common-carrier pipeline system that transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. The Partnership recognizes its 20% interest in WTLPG as "Investment in WTLPG" on its Consolidated and Condensed Balance Sheets. The Partnership accounts for its ownership interest in WTLPG under the equity method of accounting.

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2016
(Unaudited)

Selected financial information for WTLPG is as follows:

	As of September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	Total Assets	**Members' Equity**	**Revenues**	**Net Income**	**Revenues**	**Net Income**
2016						
WTLPG	$815,700	$791,762	$21,849	$5,515	$66,870	$18,240
	As of December 31,					
2015						
WTLPG	$819,342	$804,023	$26,094	$11,815	$70,010	$28,760

As of September 30, 2016 and December 31, 2015, the Partnership's interest in cash of WTLPG was $1,189 and $1,060, respectively.

(6) Derivative Instruments and Hedging Activities

The Partnership's revenues and cost of products sold are materially impacted by changes in NGL prices. Additionally, the Partnership's results of operations are materially impacted by changes in interest rates. In an effort to manage its exposure to these risks, the Partnership periodically enters into various derivative instruments, including commodity and interest rate hedges. All of the Partnership's derivatives are non-hedge derivatives and therefore all changes in fair values are recognized as gains and losses in the earnings of the periods in which they occur.

(a) Commodity Derivative Instruments

The Partnership from time to time has used derivatives to manage the risk of commodity price fluctuation. Commodity risk is the adverse effect on the value of a liability or future purchase that results from a change in commodity price. The Partnership has established a hedging policy and monitors and manages the commodity market risk associated with potential commodity risk exposure. In addition, the Partnership has focused on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction. The Partnership has entered into hedging transactions as of September 30, 2016 to protect a portion of its commodity price risk exposure. These hedging arrangements are in the form of swaps for NGLs. The Partnership has instruments totaling a net notional quantity of 441,000 barrels settling during the period from October 31, 2016 through March 31, 2017. These instruments settle against the applicable pricing source for each grade and location. Martin Energy Trading LLC ("MET"), an affiliate of Martin Resource Management, serves as the counterparty for all positions outstanding at September 30, 2016.

(b) Interest Rate Derivative Instruments

The Partnership is exposed to market risks associated with interest rates. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Partnership enters into interest rate swaps to manage interest rate risk associated with the Partnership’s variable rate credit facility and its fixed rate senior unsecured notes. All derivatives and hedging instruments are included on the balance sheet as an asset or a liability measured at fair value and changes in fair value are recognized currently in earnings.

During the nine months ended September 30, 2016 and 2015, the Partnership entered into contracts which provided the counterparty the option to enter into swap contracts to hedge the Partnership's exposure to changes in the fair value of its senior unsecured notes ("interest rate swaptions") through September 30, 2016 and 2015, respectively. In connection with the interest rate swaption contracts, the Partnership received premiums of $0 and $630, which represented their fair value on the date the transactions were initiated and were initially recorded as derivative liabilities on the Partnership's Consolidated and Condensed Balance Sheets, during the three and nine months ended September 30, 2016, respectively. In connection with the interest rate swaption contracts, the Partnership received premiums of $750 and $2,495, which represented their fair value on the date the

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2016
(Unaudited)

transactions were initiated and were initially recorded as derivative liabilities on the Partnership's Consolidated and Condensed Balance Sheets, during the three and nine months ended September 30, 2015, respectively. Each of the interest rate swaptions was fully amortized as of September 30, 2016 and 2015. Interest rate swaption contract premiums received are amortized over the period from initiation of the contract through their termination date. For the three and nine months ended September 30, 2016, the Partnership recognized $0 and $630, respectively, of premiums in "Interest expense, net" on the Partnership's Consolidated and Condensed Statements of Operations related to the interest rate swaption contracts. For the three and nine months ended September 30, 2015, the Partnership recognized $750 and $2,495, respectively, of premiums in "Interest expense, net" on the Partnership's Consolidated and Condensed Statements of Operations related to the interest rate swaption contracts.

As of December 31, 2015, the Partnership had a fixed-to-variable interest rate swap agreement with a notional principal amount of $50,000 of fixed-to-variable interest rate swap agreements, effectively converting the interest expense associated with a portion of the Partnership's 2021 senior unsecured notes from fixed rate to variable rate based on the LIBOR interest rate. The Partnership's swap agreement had a termination date that corresponded to the maturity date of the 2021 senior unsecured notes. This instrument was recorded on the Partnership's Consolidated and Condensed Balance Sheets at December 31, 2015 in "Fair value of derivatives" as a non current liability of $206. This position terminated on January 7, 2016, resulting in a benefit of $160.

For information regarding gains and losses on interest rate derivative instruments, see "Tabular Presentation of Gains and Losses on Derivative Instruments" below.

(c) Tabular Presentation of Gains and Losses on Derivative Instruments

The following table summarizes the fair value and classification of the Partnership’s derivative instruments in its Consolidated and Condensed Balance Sheets:

	Fair Values of Derivative Instruments in the Consolidated Balance Sheets					
	Derivative Assets			**Derivative Liabilities**		
		Fair Values			**Fair Values**	
	Balance Sheet Location	**September 30, 2016**	**December 31, 2015**	**Balance Sheet Location**	**September 30, 2016**	**December 31, 2015**
Derivatives not designated as hedging instruments:	Current:					
Commodity contracts	Fair value of derivatives	$89	$ 675	Fair value of derivatives	$209	$ —
Derivatives not designated as hedging instruments:	Non Current:			Non Current:		
Interest rate contracts	Fair value of derivatives	—	—	Fair value of derivatives	—	206
Total derivatives not designated as hedging instruments		$89	$ 675		$209	$ 206

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Effect of Derivative Instruments on the Consolidated and Condensed Statements of Operations
For the Three Months Ended September 30, 2016 and 2015

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
		2016	2015
Derivatives not designated as hedging instruments:			
Interest rate swaption contracts	Interest expense	$—	$750
Commodity contracts	Cost of products sold	742	(358)
Total derivatives not designated as hedging instruments		$742	$392

Effect of Derivative Instruments on the Consolidated and Condensed Statements of Operations
For the Nine Months Ended September 30, 2016 and 2015

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
		2016	2015
Derivatives not designated as hedging instruments:			
Interest rate swaption contracts	Interest expense	$630	$2,495
Interest rate contracts	Interest expense	366	—
Commodity contracts	Cost of products sold	871	(358)
Total derivatives not designated as hedging instruments		$1,867	$2,137

(7) Fair Value Measurements

The Partnership uses a valuation framework based upon inputs that market participants use in pricing certain assets and liabilities. These inputs are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources. Unobservable inputs represent the Partnership's own market assumptions. Unobservable inputs are used only if observable inputs are unavailable or not reasonably available without undue cost and effort. The two types of inputs are further prioritized into the following hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that reflect the entity's own assumptions and are not corroborated by market data.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Level 2

	September 30, 2016	December 31, 2015
Commodity derivative contracts, net	$(120)	$ 675
Interest rate derivative contracts	—	(206)

The Partnership is required to disclose estimated fair values for its financial instruments. Fair value estimates are set forth below for these financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

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- Accounts and other receivables, trade and other accounts payable, accrued interest payable, other accrued liabilities, income taxes payable and due from/to affiliates: The carrying amounts approximate fair value due to the short maturity and highly liquid nature of these instruments, and as such these have been excluded from the table below. There is negligible credit risk associated with these instruments.

- Note receivable and long-term debt including current portion: The carrying amount of the revolving credit facility approximates fair value due to the debt having a variable interest rate and is in Level 2. The Partnership has not had any indicators which represent a change in the market spread associated with its variable interest rate debt.

- The estimated fair value of the senior unsecured notes is based on market prices of similar debt. The estimated fair value of the note receivable from Martin Energy Trading was determined by calculating the net present value of the payments over the life of the note. The note is considered Level 3 due to the lack of observable inputs for similar transactions between related parties.

	September 30, 2016		**December 31, 2015**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Note receivable - MET	$15,000	$15,803	$15,000	$15,830
2021 Senior unsecured notes	372,144	359,184	371,861	318,000

(8) Supplemental Balance Sheet Information

Components of "Other assets, net" were as follows:

	September 30, 2016	**December 31, 2015**
Customer contracts and relationships, net	$ 40,386	$ 50,452
Other intangible assets	2,417	1,818
Other	6,148	6,044
	$ 48,951	$ 58,314

Accumulated amortization of intangible assets was $47,521 and $32,842 at September 30, 2016 and December 31, 2015, respectively.

Components of "Other accrued liabilities" were as follows:

	September 30, 2016	**December 31, 2015**
Accrued interest	$ 3,721	$ 10,365
Property and other taxes payable	8,535	6,668
Accrued payroll	2,505	1,389
Other	43	111
	$ 14,804	$ 18,533

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(9) Long-Term Debt

At September 30, 2016 and December 31, 2015, long-term debt consisted of the following:

	September 30, 2016	**December 31, 2015**
$664,444[3] Revolving credit facility at variable interest rate (3.53%[1] weighted average at September 30, 2016), due March 2020 secured by substantially all of the Partnership's assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in the Partnership's operating subsidiaries and equity method investees, net of unamortized debt issuance costs of $7,640 and $4,858, respectively[2]	$ 541,360	$ 493,142
$400,000 Senior notes, 7.25% interest, net of unamortized debt issuance costs of $2,994 and $3,507, respectively, including unamortized premium of $1,338 and $1,568, respectively, issued $250,000 February 2013 and $150,000 April 2014, $26,200 repurchased during 2015, due February 2021, unsecured[2]	372,144	371,861
Total long-term debt, net	$ 913,504	$ 865,003

[1] Interest rate fluctuates based on the LIBOR rate plus an applicable margin set on the date of each advance. The margin above LIBOR is set every three months. Indebtedness under the credit facility bears interest at LIBOR plus an applicable margin or the base prime rate plus an applicable margin. All amounts outstanding at September 30, 2016 and December 31, 2015 were at LIBOR plus an applicable margin. The applicable margin for revolving loans that are LIBOR loans ranges from 2.00% to 3.00% and the applicable margin for revolving loans that are base prime rate loans ranges from 1.00% to 2.00%. The applicable margin for existing LIBOR borrowings at September 30, 2016 is 3.00%. The credit facility contains various covenants which limit the Partnership's ability to make certain investments and acquisitions; enter into certain agreements; incur indebtedness; sell assets; and make certain amendments to the Partnership's omnibus agreement with Martin Resource Management (the "Omnibus Agreement"). The Partnership is permitted to make quarterly distributions so long as no event of default exists.

[2] The Partnership is in compliance with all debt covenants as of September 30, 2016.

[3] On April 27, 2016, the Partnership made certain strategic amendments to its credit facility which, among other things, decreased its borrowing capacity from $700,000 to $664,444 and extended the maturity date of the facility from March 28, 2018 to March 28, 2020. In connection with the amendment, the Partnership expensed $820 of unamortized debt issuance costs determined not to have continuing benefit.

The Partnership paid cash interest, net of proceeds received from interest rate swaptions and capitalized interest, in the amount of $18,644 and $40,760 for the three and nine months ended September, 2016, respectively. The Partnership paid cash interest, net of proceeds received from interest rate swaptions and capitalized interest, in the amount of $18,017 and $39,121 for the three and nine months ended September 30, 2015, respectively. Capitalized interest was $229 and $911 for the three and nine months ended September 30, 2016, respectively. Capitalized interest was $427 and $1,522 for the three and nine months ended September 30, 2015, respectively.

(10) Partners' Capital

As of September 30, 2016, Partners’ capital consisted of 35,454,712 common limited partner units, representing a 98% partnership interest and a 2% general partner interest. Martin Resource Management, through subsidiaries, owns 6,264,532 of the Partnership's common limited partner units representing approximately 17.7% of the Partnership's outstanding common limited partner units. Martin Midstream GP LLC ("MMGP"), the Partnership's general partner, owns the 2% general partnership interest. Martin Resource Management controls the Partnership's general partner, by virtue of its 51% voting interest in MMGP Holdings, LLC ("Holdings"), the sole member of the Partnership's general partner.

The partnership agreement of the Partnership (the "Partnership Agreement") contains specific provisions for the allocation of net income and losses to each of the partners for purposes of maintaining their respective partner capital accounts.

Incentive Distribution Rights

MMGP holds a 2% general partner interest and certain incentive distribution rights ("IDRs") in the Partnership. IDRs are a separate class of non-voting limited partner interest that may be transferred or sold by the general partner under the terms of the Partnership Agreement, and represent the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution and any cumulative arrearages on common units once certain target distribution levels have been achieved. The Partnership is required to distribute all of its available cash from operating surplus, as defined in the Partnership Agreement. The general partner was allocated $0 and $7,786 in incentive distributions during the three and nine months ended September 30, 2016, respectively. The general partner was allocated $3,893 and $11,680 in incentive distributions during the three and nine months ended September 30, 2015, respectively.

The target distribution levels entitle the general partner to receive 2% of quarterly cash distributions from the minimum of $0.50 per unit up to $0.55 per unit, 15% of quarterly cash distributions in excess of $0.55 per unit until all unitholders have received $0.625 per unit, 25% of quarterly cash distributions in excess of $0.625 per unit until all unitholders have received $0.75 per unit and 50% of quarterly cash distributions in excess of $0.75 per unit.

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Distributions of Available Cash

The Partnership distributes all of its available cash (as defined in the Partnership Agreement) within 45 days after the end of each quarter to unitholders of record and to the general partner. Available cash is generally defined as all cash and cash equivalents of the Partnership on hand at the end of each quarter less the amount of cash reserves its general partner determines in its reasonable discretion is necessary or appropriate to: (i) provide for the proper conduct of the Partnership's business; (ii) comply with applicable law, any debt instruments or other agreements; or (iii) provide funds for distributions to unitholders and the general partner for any one or more of the next four quarters, plus all cash on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter.

Net Income per Unit

The Partnership follows the provisions of the FASB ASC 260-10 related to earnings per share, which addresses the application of the two-class method in determining income per unit for master limited partnerships having multiple classes of securities that may participate in partnership distributions accounted for as equity distributions. Undistributed earnings are allocated to the general partner and limited partners utilizing the contractual terms of the Partnership Agreement. Distributions to the general partner pursuant to the IDRs are limited to available cash that will be distributed as defined in the Partnership Agreement. Accordingly, the Partnership does not allocate undistributed earnings to the general partner for the IDRs because the general partner's share of available cash is the maximum amount that the general partner would be contractually entitled to receive if all earnings for the period were distributed. When current period distributions are in excess of earnings, the excess distributions for the period are to be allocated to the general partner and limited partners based on their respective sharing of income and losses specified in the Partnership Agreement. Additionally, as required under FASB ASC 260-10-45-61A, unvested share-based payments that entitle employees to receive non-forfeitable distributions are considered participating securities, as defined in FASB ASC 260-10-20, for earnings per unit calculations.

For purposes of computing diluted net income per unit, the Partnership uses the more dilutive of the two-class and if-converted methods. Under the if-converted method, the weighted-average number of subordinated units outstanding for the period is added to the weighted-average number of common units outstanding for purposes of computing basic net income per unit and the resulting amount is compared to the diluted net income per unit computed using the two-class method. The following is a reconciliation of net income allocated to the general partner and limited partners for purposes of calculating net income attributable to limited partners per unit:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Continuing operations:	**2016**	**2015**	**2016**	**2015**
Income (loss) from continuing operations	$(933)	$3,330	$13,770	$30,324
Less general partner's interest in net income:				
Distributions payable on behalf of IDRs	—	3,893	7,786	11,230
Distributions payable on behalf of general partner interest	361	667	1,696	1,925
General partner interest in undistributed earnings	(379)	(601)	(1,420)	(1,319)
Less income (loss) allocable to unvested restricted units	(3)	16	36	122

Limited partners' interest in income (loss) from continuing operations	$(912)	$(645)	$5,672	$18,366

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Discontinued operations:	**Three Months Ended September 30, 2016**	**2015**	**Nine Months Ended September 30, 2016**	**2015**
Income from discontinued operations	$ —	$ —	$ —	$ 1,215
Less general partner's interest in net income:				
Distributions payable on behalf of IDRs	—	—	—	450
Distributions payable on behalf of general partner interest	—	—	—	77
General partner interest in undistributed earnings	—	—	—	(53)
Less income allocable to unvested restricted units	—	—	—	5
Limited partners' interest in income from discontinued operations	$ —	$ —	$ —	$ 736

The following are the unit amounts used to compute the basic and diluted earnings per limited partner unit for the periods presented:

	Three Months Ended September 30, 2016	**2015**	**Nine Months Ended September 30, 2016**	**2015**
Basic weighted average limited partner units outstanding	35,346,412	35,307,583	35,358,217	35,308,990
Dilutive effect of restricted units issued	—	—	22,850	59,976
Total weighted average limited partner diluted units outstanding	35,346,412	35,307,583	35,381,067	35,368,966

All outstanding units were included in the computation of diluted earnings per unit and weighted based on the number of days such units were outstanding during the periods presented. All common unit equivalents were antidilutive for the three months ended September 30, 2016 and 2015 because the limited partners were allocated a net loss in these periods.

(11) Related Party Transactions

As of September 30, 2016, Martin Resource Management owns 6,264,532 of the Partnership's common units representing approximately 17.7% of the Partnership's outstanding limited partner units. Martin Resource Management controls the Partnership's general partner by virtue of its 51% voting interest in Holdings, the sole member of the Partnership's general partner. The Partnership's general partner, MMGP, owns a 2% general partner interest in the Partnership and the Partnership's IDRs. The Partnership's general partner's ability, as general partner, to manage and operate the Partnership, and Martin Resource Management's ownership as of September 30, 2016, of approximately 17.7% of the Partnership's outstanding limited partner units, effectively gives Martin Resource Management the ability to veto some of the Partnership's actions and to control the Partnership's management.

The following is a description of the Partnership's material related party agreements and transactions:

Omnibus Agreement

Omnibus Agreement. The Partnership and its general partner are parties to the Omnibus Agreement dated November 1, 2002, with Martin Resource Management that governs, among other things, potential competition and indemnification obligations among the parties to the agreement, related party transactions, the provision of general administration and support services by Martin Resource Management and the Partnership's use of certain Martin Resource Management trade names and trademarks. The Omnibus Agreement was amended on November 25, 2009, to include processing crude oil into finished products including naphthenic lubricants, distillates, asphalt and other intermediate cuts. The Omnibus Agreement was amended further on October 1, 2012, to permit the Partnership to provide certain lubricant packaging products and services to Martin Resource Management.

Non-Competition Provisions. Martin Resource Management has agreed for so long as it controls the general partner of the Partnership, not to engage in the business of:

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- providing terminalling and storage services for petroleum products and by-products including the refining, blending and packaging of finished lubricants;

- providing marine transportation of petroleum products and by-products;

- distributing NGLs; and

- manufacturing and selling sulfur-based fertilizer products and other sulfur-related products.

This restriction does not apply to:

- the ownership and/or operation on the Partnership's behalf of any asset or group of assets owned by it or its affiliates;

- any business operated by Martin Resource Management, including the following:

    providing land transportation of various liquids;