

MARTIN MIDSTREAM PARTNERS LP
Form 10-Q
August 06, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number
000-50056

MARTIN MIDSTREAM PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

05-0527861
(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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of the registrant's Common Units outstanding at August 6, 2012, was 23,116,776.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Cash	\$ 106	\$ 266
Accounts and other receivables, less allowance for doubtful accounts of \$3,093 and \$3,021, respectively	97,471	126,461
Product exchange receivables	8,129	17,646
Inventories	83,759	77,677
Due from affiliates	17,199	5,968
Fair value of derivatives	41	622
Other current assets	2,074	1,978
Assets held for sale	211,588	212,787
Total current assets	420,367	443,405
Property, plant and equipment, at cost	678,263	632,728
Accumulated depreciation	(234,168)	(215,272)
Property, plant and equipment, net	444,095	417,456
Goodwill	8,337	8,337
Investment in unconsolidated entities	76,411	62,948
Debt issuance costs, net	11,603	13,330
Other assets, net	6,043	3,633
	\$ 966,856	\$ 949,109
Liabilities and Partners' Capital		
Current installments of long-term debt and capital lease obligations	\$ 206	\$ 1,261
Trade and other accounts payable	109,429	125,970
Product exchange payables	15,779	37,313
Due to affiliates	12,316	18,485
Income taxes payable	839	893
Fair value of derivatives	—	362
Other accrued liabilities	9,317	11,022
Liabilities held for sale	508	501
Total current liabilities	148,394	195,807
Long-term debt and capital leases, less current maturities	452,970	458,941
Deferred income taxes	7,336	7,657
Other long-term obligations	1,061	1,088
Total liabilities	609,761	663,493

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Partners' capital	357,032	284,990
Accumulated other comprehensive income	63	626
Total partners' capital	357,095	285,616
Commitments and contingencies		
	\$966,856	\$949,109

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Terminalling and storage *	\$21,046	\$19,327	\$41,232	\$37,450
Marine transportation *	20,714	17,376	41,576	36,775
Sulfur services	2,925	2,850	5,851	5,700
Product sales: *				
Natural gas services	164,817	127,050	336,928	264,205
Sulfur services	64,168	74,083	135,794	130,991
Terminalling and storage	19,208	19,371	40,881	37,916
	248,193	220,504	513,603	433,112
Total revenues	292,878	260,057	602,262	513,037
Costs and expenses:				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services *	163,043	125,648	330,242	257,926
Sulfur services *	47,350	59,892	102,310	104,334
Terminalling and storage	17,367	17,395	37,387	33,955
	227,760	202,935	469,939	396,215
Expenses:				
Operating expenses *	34,442	33,372	71,454	66,322
Selling, general and administrative *	4,603	3,751	9,007	7,477
Depreciation and amortization	9,791	9,928	19,491	19,498
Total costs and expenses	276,596	249,986	569,891	489,512
Other operating income	378	98	373	98
Operating income	16,660	10,169	32,744	23,623
Other income (expense):				
Equity in earnings (loss) of unconsolidated entities	(745)	153	(363)	153
Interest expense	(8,265)	(4,403)	(15,472)	(12,805)
Debt prepayment premium	(2,219)	—	(2,470)	—
Other, net	84	44	145	102
Total other expense	(11,145)	(4,206)	(18,160)	(12,550)
Income from continuing operations before taxes	5,515	5,963	14,584	11,073
Income tax expense	(307)	(223)	(572)	(444)
Income from continuing operations	5,208	5,740	14,012	10,629
Income from discontinued operations, net of income taxes	1,984	3,030	3,709	5,463
Net income	\$7,192	\$8,770	\$17,721	\$16,092

*Related Party Transactions Included Above

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Revenues:

Terminalling and storage	\$ 14,805	\$ 12,897	\$ 30,080	\$ 25,835
Marine transportation	4,446	6,306	9,303	12,871
Product Sales	1,958	1,768	4,147	5,569

Costs and expenses:

Cost of products sold: (excluding depreciation and amortization)

Natural gas services	7,707	1,961	12,022	4,422
Sulfur services	3,970	4,492	8,401	8,645

Expenses:

Operating expenses	14,392	13,477	28,208	25,265
Selling, general and administrative	2,828	1,965	5,494	3,971

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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)

	Three Months Ended		Six Months Ended	
	2012	June 30, 2011	2012	June 30, 2011
Allocation of net income attributable to:				
Limited partner interest:				
Continuing operations	\$ 4,090	\$ 4,633	\$ 11,517	\$ 8,517
Discontinued operations	1,558	2,445	3,049	4,377
	5,648	7,078	14,566	12,894
General partner interest:				
Continuing operations	1,118	926	2,495	1,746
Discontinued operations	426	489	660	898
	1,544	1,415	3,155	2,644
Net income attributable to:				
Continuing operations	5,208	5,559	14,012	10,263
Discontinued operations	1,984	2,934	3,709	5,275
Net income attributable to limited partners:	\$ 7,192	\$ 8,493	\$ 17,721	\$ 15,538
Basic:				
Continuing operations	\$ 0.18	\$ 0.24	\$ 0.51	\$ 0.44
Discontinued operations	0.07	0.13	0.13	0.23
	\$ 0.25	\$ 0.37	\$ 0.64	\$ 0.67
Weighted average limited partner units - basic	23,103	19,159	22,839	19,163
Diluted:				
Continuing operations	\$ 0.18	\$ 0.24	\$ 0.51	\$ 0.44
Discontinued operations	0.07	0.13	0.13	0.23
	\$ 0.25	\$ 0.37	\$ 0.64	\$ 0.67
Weighted average limited partner units - diluted	23,104	19,159	22,842	19,164

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$7,192	\$8,770	\$17,721	\$16,092
Other comprehensive income adjustments:				
Changes in fair values of commodity cash flow hedges	—	843	126	(65)
Commodity cash flow hedging gains (losses) reclassified to earnings	(499)	(318)	(689)	(752)
Interest rate cash flow hedging losses reclassified to earnings	—	—	—	18
Other comprehensive income	(499)	525	(563)	(799)
Comprehensive income	\$6,693	\$9,295	\$17,158	\$15,293

See accompanying notes to consolidated and condensed financial statements.

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

	Partners' Capital				General Partner Amount	Accumulated Other Comprehensive Income	
	Common Units	Limited Amount	Subordinated Limited Units	Subordinated Amount		(Loss)	Total
Balances – January 1, 2011	17,707,832	\$250,785	889,444	\$17,721	\$4,881	\$1,419	\$274,806
Net income	—	13,448	—	—	2,644	—	16,092
Recognition of beneficial conversion feature	—	(554)	—	554	—	—	—
Follow-on public offering	1,874,500	70,330	—	—	—	—	70,330
General partner contribution	—	—	—	—	1,505	—	1,505
Cash distributions	—	(28,390)	—	—	(3,025)	—	(31,415)
Excess purchase price over carrying value of acquired assets	—	(19,685)	—	—	—	—	(19,685)
Unit-based compensation	15,350	96	—	—	—	—	96
Purchase of treasury units	(14,850)	(582)	—	—	—	—	(582)
Unit-based compensation grant forfeitures	(500)	—	—	—	—	—	—
Adjustment in fair value of derivatives	—	—	—	—	—	(799)	(799)
Balances – June 30, 2011	19,582,332	\$285,448	889,444	\$18,275	\$6,005	\$620	\$310,348
Balances – January 1, 2012	20,471,776	\$279,562	—	\$—	\$5,428	\$626	\$285,616
Net income	—	14,566	—	—	3,155	—	17,721
Follow-on public offering	2,645,000	91,361	—	—	—	—	91,361
General partner contribution	—	—	—	—	1,951	—	1,951
Cash distributions	—	(35,253)	—	—	(3,635)	—	(38,888)
Unit-based compensation	6,250	118	—	—	—	—	118

Purchase of treasury units	(6,250)	(221)	—	—	—	—	(221)
Adjustment in fair value of derivatives	—	—	—	—	—	(563)	(563)
Balances – June 30, 2012	23,116,776	\$350,133	—	\$—	\$6,899	\$63	\$357,095

See accompanying notes to consolidated and condensed financial statements.

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

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$17,721	\$16,092
Less: Income from discontinued operations	(3,709)	(5,463)
Net income from continuing operations	14,012	10,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,491	19,498
Amortization of deferred debt issuance costs	1,931	2,390
Amortization of debt discount	427	175
Deferred taxes	(321)	(32)
Loss on sale of property, plant and equipment	3	714
Equity in earnings (loss) of unconsolidated entities	363	(153)
Non-cash mark-to-market on derivatives	(344)	(2,346)
Other	118	96
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:		
Accounts and other receivables	28,990	(3,843)
Product exchange receivables	9,517	(7,542)
Inventories	(6,082)	(10,344)
Due from affiliates	(11,231)	(12,685)
Other current assets	(96)	1,176
Trade and other accounts payable	(16,541)	7,848
Product exchange payables	(21,534)	5,257
Due to affiliates	(6,169)	10,270
Income taxes payable	(54)	(210)
Other accrued liabilities	(1,705)	(365)
Change in other non-current assets and liabilities	(574)	(92)
Net cash provided by continuing operating activities	10,201	20,441
Net cash provided by discontinued operating activities	6,918	9,634
Net cash provided by operating activities	17,119	30,075
Cash flows from investing activities:		
Payments for property, plant and equipment	(45,616)	(29,473)
Acquisitions	—	(16,815)
Payments for plant turnaround costs	(2,403)	(2,044)
Proceeds from sale of property, plant and equipment	23	—
Investment in unconsolidated subsidiaries	(775)	(59,319)
Return of investments from unconsolidated entities	4,297	—
Distributions from (contributions to) unconsolidated entities for operations	(17,348)	—
Net cash used in continuing investing activities	(61,822)	(107,651)
Net cash used in discontinued investing activities	(2,003)	(5,923)
Net cash used in investing activities	(63,825)	(113,574)
Cash flows from financing activities:		
Payments of long-term debt	(217,000)	(301,500)

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Payments of notes payable and capital lease obligations	(6,453)	(543)
Proceeds from long-term debt	216,000	357,500
Net proceeds from follow on offering	91,361	70,330
General partner contribution	1,951	1,505
Treasury units purchased	(221)	(582)
Payment of debt issuance costs	(204)	(3,424)
Excess purchase price over carrying value of acquired assets	—	(19,685)
Cash distributions paid	(38,888)	(31,415)
Net cash provided by financing activities	46,546	72,186
Net decrease in cash	(160)	(11,313)
Cash at beginning of period	266	11,380
Cash at end of period	\$106	\$67

See accompanying notes to consolidated and condensed financial statements.

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
June 30, 2012
(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 Gulf Coast region. Its four primary business lines include: terminalling and storage services for petroleum products and by-products, natural gas services, 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 for interim financial reporting. Accordingly, these financial statements have been condensed and do not include all of the information and footnotes required by generally accepted accounting principles 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 results of operations, financial position 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, 2011, filed with the Securities and Exchange Commission (the "SEC") on March 5, 2012.

As discussed in Notes 4 and 16, on July 31, 2012, the Partnership completed the sale of its East Texas and Northwest Louisiana natural gas gathering and processing assets. These assets, along with additional gathering and processing assets discussed in Note 4 are collectively referred to as the "Prism Assets". The Partnership has classified the Prism Assets, including related liabilities as held for sale at June 30, 2012 and December 31, 2011, and has presented the results of operations and cash flows as discontinued operations for the periods ended June 30, 2012 and 2011, respectively. The Partnership has retrospectively adjusted its prior period consolidated financial statements to comparably classify the amounts related to the net assets and operations and cash flows of the Prism Assets as assets held for sale and discontinued operations, respectively.

(a) Use of Estimates

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 financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

(b) Unit Grants

In May 2012, the Partnership issued 6,250 restricted common units to certain Martin Resource Management employees under its long-term incentive plan from 6,250 treasury units purchased by the Partnership in the open market for \$221. These units vest in 25% increments beginning in January 2013 and will be fully vested in January 2016.

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In May 2011, the Partnership issued 6,250 restricted common units to certain Martin Resource Management employees under its long-term incentive plan from 5,750 treasury units purchased by the Partnership in the open market for \$235 and 500 treasury units from forfeitures. These units vest in 25% increments beginning in January 2012 and will be fully vested in January 2015.

In February 2011, the Partnership issued 9,100 restricted common units to cer