MARTIN MIDSTREAM PARTNERS LP
Form 10-K/A
May 04, 2010

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

FORM 10-K/A
(Amendment No. 1)

Mark One

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2009

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	(I.R.S. Employer Identification No.)

4200 Stone Road Kilgore, Texas 75662
(Address of principal executive offices) (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:
NONE
Securities Registered Pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Units representing limited partnership interests	NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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 the past 90 days.

Yes þ 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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

Yes o No þ

As of June 30, 2009, 13,688,152 common units were outstanding. The aggregate market value of the common units held by non-affiliates of the registrant as of such date approximated $190,489,698 based on the closing sale price on that date. There were 17,707,832 of the registrant s common units and 889,444 of the registrant s subordinated units outstanding as of March 4, 2010.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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EXPLANATORY NOTE

Martin Midstream Partners L.P. (the Partnership) is filing this Amendment No. 1 on Form 10-K/A (Amendment No. 1) to amend its annual report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission on March 4, 2010, solely to correct certain typographical errors in the Financial Statements of Martin Midstream Partners L.P. for the year ended December 31, 2009. Specifically, the third paragraph of the Report of Independent Registered Public Accounting Firm on page 78 should read:

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Martin Midstream Partners L.P. and subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

Although this paragraph contained certain typographical errors, the remainder of Item 8 Financial Statements and Supplementary Data was accurate. In all other respects, the Partnership s annual report on Form 10-K filed on March 4, 2010 remains unchanged. This Amendment No. 1 is as of the date of the original filing date of the Partnership s annual report on Form 10-K and the Partnership has not updated the disclosures contained therein to reflect any events that occurred at a later date.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Martin Midstream GP LLC:

We have audited the accompanying consolidated balance sheets of Martin Midstream Partners L.P. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in capital, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. These financial statements are the responsibility of Martin Midstream s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Martin Midstream Partners L.P. and subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Martin Midstream Partners L.P. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2010 expressed an unqualified opinion on the effectiveness of Martin Midstream Partners L.P. and subsidiaries internal control over financial reporting.

/s/ KPMG LLP
Shreveport, Louisiana
March 4, 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Martin Midstream GP LLC:

We have audited Martin Midstream Partners L.P. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Martin Midstream s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting in Item 9A(b). Our responsibility is to express an opinion on Martin Midstream s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Martin Midstream Partners L.P. and subsidiaries maintained, in all respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Martin Midstream Partners L.P. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in capital, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 4, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Shreveport, Louisiana
March 4, 2010

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MARTIN MIDSTREAM PARTNERS L.P.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008 [1]
	(Dollars in thousands)	
Assets		
Cash	$ 5,956	$ 7,983
Accounts and other receivables, less allowance for doubtful accounts of $1,025 and $481, respectively	77,413	68,168
Product exchange receivables	4,132	6,924
Inventories	35,510	42,754
Due from affiliates	3,051	555
Fair value of derivatives	1,872	3,623
Other current assets	1,340	3,418
Total current assets	129,274	133,425
Property, plant and equipment, at cost	584,036	576,608
Accumulated depreciation	(162,121)	(130,976)
Property, plant and equipment, net	421,915	445,632
Goodwill	37,268	37,405
Investment in unconsolidated entities	80,582	79,843
Fair value of derivatives		1,469
Other assets, net	16,900	8,548
	$ 685,939	$ 706,322
Liabilities and Partners Capital		
Current installments of lease obligations	$ 111	$
Trade and other accounts payable	71,911	94,146
Product exchange payables	7,986	10,924
Due to affiliates	13,810	23,085
Income taxes payable	454	414
Fair value of derivatives	7,227	6,478
Other accrued liabilities	5,000	6,428
Total current liabilities	106,499	141,475
Long-term debt and capital leases, less current maturities	304,372	295,000
Deferred income taxes	8,628	17,499
Fair value of derivatives		4,302

Other long-term obligations	1,489	1,667
Total liabilities	420,988	459,943
Partners capital	267,027	251,314
Accumulated other comprehensive loss	(2,076)	(4,935)
Total partners capital	264,951	246,379
Commitments and contingencies		
	$ 685,939	$ 706,322

[1] Financial information for 2008 has been revised to include balances attributable to the Cross assets. See Note 2(a) Principles of Presentation and Consolidation.

See accompanying notes to consolidated financial statements.

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MARTIN MIDSTREAM PARTNERS L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2009 [1]	2008 [1]	2007 [1]
	(Dollars in thousands, except per unit amounts)		
Revenues:			
Terminalling and storage *	$ 69,710	$ 68,552	$ 67,905
Marine transportation *	68,480	76,349	59,579
Product sales: *			
Natural gas services	408,982	679,375	515,992
Sulfur services	79,629	371,949	131,326
Terminalling and storage	35,584	50,219	29,525
	524,195	1,101,543	676,843
Total revenues	662,385	1,246,444	804,327
Costs and expenses:			
Cost of products sold: (excluding depreciation and amortization)			
Natural gas services *	382,542	657,662	495,641
Sulfur services *	43,386	313,143	97,577
Terminalling and storage	31,331	42,721	25,471
	457,259	1,013,526	618,689
Expenses:			
Operating expenses *	117,438	126,808	104,165
Selling, general and administrative *	19,775	19,062	13,918
Depreciation and amortization	39,506	34,893	26,323
Total costs and expenses	633,978	1,194,289	763,095
Other operating income	6,013	209	703
Operating income	34,420	52,364	41,935
Other income (expense):			
Equity in earnings of unconsolidated entities	7,044	13,224	10,941
Interest expense	(18,995)	(21,433)	(15,125)
Other, net	326	801	405
Total other income (expense)	(11,625)	(7,408)	(3,779)
Net income before taxes	22,795	44,956	38,156
Income tax benefit (expense)	(592)	(1,398)	(5,595)

Net income	$ 22,203	$ 43,558	$ 32,561
General partner s interest in net income[2]	$ 3,249	$ 3,301	$ 1,564
Limited partners interest in net income[2]	$ 17,179	$ 39,509	$ 23,375
Net income per limited partner unit basic and diluted	$ 1.17	$ 2.72	$ 1.67
Weighted average limited partner units basic	14,680,807	14,529,826	14,018,799
Weighted average limited partner units diluted	14,684,775	14,534,722	14,022,545

[1] Financial information for 2007, 2008 and for the period January 1, 2009 through November 24, 2009 has been revised to include results attributable to the Cross assets. See Note 2(a) Principles of Presentation and Consolidation.

[2] General and limited partner s interest in net income includes net income of the Cross assets since the date of the acquisition.

See accompanying notes to consolidated financial statements.

* Related Party Transactions Included Above

Revenues:

Terminalling and storage	$19,998	$18,362	$11,816
Marine transportation	19,370	24,956	23,729
Product Sales	5,838	26,704	7,577
Costs and expenses:			
Cost of products sold: (excluding depreciation and amortization)			
Natural gas services	56,914	92,322	62,686
Sulfur services	12,583	13,282	13,992
Expenses:			
Operating expenses	37,284	37,661	28,991
Selling, general and administrative	7,162	6,284	4,089

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MARTIN MIDSTREAM PARTNERS L.P.

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL
For the years ended December 31, 2009, 2008 and 2007

		Partners Capital					Accumulated Comprehensive	
				Subordinated				
	Parent Net Investment [1]	Common		Units	Amount	General Partner	Income	
		Units	Amount	(Dollars in thousands)		Amount	Amount	Total
Balances December 31, 2006	$ 3,295	10,603,808	$ 201,426	2,552,018	$ (6,224)	$ 3,201	$ 122	$ 201,820
Net Income	7,622		19,781		3,594	1,564		32,561
Follow-on public offering		1,380,000	55,933					55,933
General partner contribution						1,192		1,192
Conversion of subordinated units to common units		850,672	(3,243)	(850,672)	3,243			
Unit-based compensation		3,000	46					46
Cash distributions ($2.60 per unit)			(29,423)		(6,635)	(1,845)		(37,903)
Commodity hedging gains reclassified to earnings							478	478
Adjustment in fair value of derivatives							(7,362)	(7,362)
Balances December 31, 2007	$ 10,917	12,837,480	$ 244,520	1,701,346	$ (6,022)	$ 4,112	$ (6,762)	$ 246,765

Net Income	748		34,978		4,531	3,301		43,558
Cash distributions ($2.91 per unit)			(37,357)		(4,951)	(3,409)		(45,717)
Conversion of subordinated units to common units		850,672	(2,754)	(850,672)	2,754			
Unit-based compensation		3,000	39					39
Purchase of treasury units		(3,000)	(93)					(93)
Adjustment in fair value of derivatives							1,827	1,827
Balances December 31, 2008	$ 11,665	13,688,152	$ 239,333	850,674	$ (3,688)	$ 4,004	$ (4,935)	$ 246,379
Net Income	1,664		16,310		980	3,249		22,203
General partner contribution						1,324		1,324
Units issued in connection with Cross acquisition		804,721	16,523	889,444	16,434			32,957
Recognition of beneficial conversion feature			(111)		111			
Issuance of common units		714,285	20,000					20,000
Cash distributions ($3.00 per unit)			(41,064)		(2,552)	(3,846)		(47,462)
Conversion of subordinated units to common		850,674	(5,328)	(850,674)	5,328			

units								
Unit-based compensation		3,000	98					98
Purchase of treasury units		(3,000)	(78)					(78)
Distributions to parent	(13,329)							(13,329)
Adjustment in fair value of derivatives							2,859	2,859
Balances December 31, 2009	$	16,057,832	$ 245,683	889,444	$ 16,613	$ 4,731	$ (2,076)	$ 264,951

[1] Financial information for 2007, 2008 and for the period January 1, 2009 through November 24, 2009 has been revised to include results attributable to the Cross assets. See Note 2(a) Principles of Presentation and Consolidation.

See accompanying notes to consolidated financial statements.

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MARTIN MIDSTREAM PARTNERS L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31,		
	2009[1]	2008[1]	2007[1]
	(Dollars in thousands)		
Net income	$ 22,203	$ 43,558	$ 32,561
Changes in fair values of commodity cash flow hedges	14	4,219	(3,569)
Commodity cash flow hedging (gains) losses reclassified to earnings	(2,646)	3,043	478
Changes in fair value of interest rate cash flow hedges	(1,854)	(5,435)	(3,793)
Interest rate cash flow hedging losses reclassified to earnings	7,345		
Comprehensive income	$ 25,062	$ 45,385	$ 25,677

[1] Financial information for 2007, 2008 and for the period January 1, 2009 through November 24, 2009 has been revised to include results attributable to the Cross assets. See Note 2(a) Principles of Presentation and Consolidation.
See accompanying notes to consolidated financial statements.

MARTIN MIDSTREAM PARTNERS L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009[1]	2008[1]	2007[1]
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ 22,203	$ 43,558	$ 32,561
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,506	34,895	26,322
Amortization of deferred debt issue costs	1,689	1,120	1,233
Deferred income taxes	294	2,442	680
Gain on disposition or sale of property, plant, and equipment	(4,996)	(131)	(484)
Gain on involuntary conversion of property, plant, and equipment	(1,017)	(65)	
Equity in earnings of unconsolidated entities	(7,044)	(13,224)	(10,941)
Distributions from unconsolidated entities	650	500	1,523
Distribution in-kind from unconsolidated entities	5,826	9,725	9,337
Non-cash mark-to-market on derivatives	2,526	(2,327)	3,904
Other	98	39	47
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:			
Accounts and other receivables	(10,471)	19,753	(26,992)
Product exchange receivables	2,792	3,988	(3,422)
Inventories	7,135	9,398	(18,651)
Due from affiliates	1,560	1,770	(995)
Other current assets	2,461	(992)	(1,241)
Trade and other accounts payable	(15,874)	(14,904)	46,119
Product exchange payables	(2,938)	(13,629)	9,817
Due to affiliates	4,133	5,966	(5,583)
Income taxes payable	569	(453)	(1,225)
Other accrued liabilities	871	101	793
Change in other non-current assets and liabilities	(2,381)	(1,190)	(1,593)
Net cash provided by operating activities	47,592	86,340	61,209
Cash flows from investing activities:			
Payments for property, plant, and equipment	(35,846)	(101,450)	(85,359)
Acquisitions, net of cash acquired	(327)	(5,983)	(41,271)
Proceeds from sale of property, plant, and equipment	19,445	463	1,293
Insurance proceeds from involuntary conversion of property, plant and equipment	2,224	1,503	
Return of investments from unconsolidated entities	877	1,225	1,952
Distributions from (contributions to) unconsolidated entities for operations	(1,048)	(2,379)	(6,910)

Net cash used in investing activities	(14,675)	(106,621)	(130,295)
Cash flows from financing activities:			
Payments of long-term debt	(431,982)	(257,191)	(169,024)
Proceeds from long-term debt	433,700	327,170	219,950
Net proceeds from follow on public offering			55,933
General partner contribution	1,324		1,192
Purchase of treasury units	(78)	(93)	
Proceeds from issuance of common units	20,000		
Payments of debt issuance costs	(10,446)	(18)	(252)
Cash distributions paid	(47,462)	(45,717)	(37,903)
Net cash provided by (used in) financing activities	(34,944)	24,151	69,896
Net increase(decrease) in cash	(2,027)	3,870	810
Cash at beginning of period	7,983	4,113	3,303
Cash at end of period	$ 5,956	$ 7,983	$ 4,113
Supplemental schedule of non-cash investing and financing activities:			
Purchase of assets under capital lease obligations	$ 7,764	$	$
Issuance of common and subordinated units in connection with Cross acquisition	$ 32,957	$	$

[1] Financial information for 2007, 2008 and for the period January 1, 2009 through November 24, 2009 has been revised to include results attributable to the Cross assets. See Note 2(a) Principles of Presentation and Consolidation.
See accompanying notes to consolidated financial statements.

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MARTIN MIDSTREAM PARTNERS L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
(Dollars in Thousands)

(1) ORGANIZATION AND DESCRIPTION OF BUSINESS

Martin Midstream Partners L.P. (the Partnership) is a publicly traded limited partnership with a diverse set of operations focused primarily in the United Stated 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 petroleum products and by-products the Partnership collects, transports, stores and distributes are produced primarily by major and independent oil and gas companies who often turn to third parties, such as the Partnership, for the transportation and disposition of these products. In addition to these major and independent oil and gas companies, our primary customers include independent refiners, large chemical companies, fertilizer manufacturers and other wholesale purchasers of these products. The Partnership operates primarily in the Gulf Coast region of the United States, which is a major hub for petroleum refining, natural gas gathering and processing and support services for the oil and gas exploration and production industry.

The Partnership owns Prism Gas Systems I, L.P. (Prism Gas) which is engaged in the gathering, processing and marketing of natural gas and natural gas liquids, predominantly in Texas and northwest Louisiana. Prism Gas owns a 50% ownership interest in Waskom Gas Processing Company (Waskom), the Matagorda Offshore Gathering System (Matagorda), Panther Interstate Pipeline Energy LLC (PIPE), and Bosque County Pipeline (BCP) each accounted for under the equity method of accounting.

(2) SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Presentation and Consolidation

The consolidated financial statements include the financial statements of the Partnership and its wholly-owned subsidiaries and equity method investees. 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. In addition, the Partnership evaluates its relationships with other entities to identify whether they are variable interest entities under certain provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), 810-10 and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Partnership is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with ASC 810-10. No such variable interest entities exist as of December 31, 2009 or 2008.

The Partnership acquired the assets of Cross Oil Refining & Marketing Inc. (Cross) from Martin Resource Management (Martin Resource Management) in November 2009 as described in Note 5. The acquisition of the Cross assets was considered a transfer of net assets between entities under common control. The acquisition of the Cross assets and increase in partners capital for the common and subordinated units issued in November 2009 are recorded at amounts based on the historical carrying value of the Cross assets at that date, and the Partnership is required to revise its historical financial statements to include the activities of the Cross assets as of the date of common control. Martin Resource Management acquired Cross in November 2006; however, the activity for the period Cross was owned by Martin Resource Management during 2006 was not considered significant to the Partnership s consolidated financial statements and has been excluded from the consolidated financial statements. The Partnership s historical financial statements for 2007, 2008 and the period January 1, 2009 through November 24, 2009 have been revised to reflect the financial position, cash flows and results of operations attributable to the Cross assets as if the Partnership owned the Cross assets for these periods. Net income attributable to the Cross assets for periods prior to the Partnership s acquisition of the assets is not allocated to the general and limited partners for purposes of calculating net income per limited partner unit. See Note (2)(o).

(b) Product Exchanges

The Partnership enters into product exchange agreements with third parties whereby the Partnership agrees to exchange NGLs and sulfur with third parties. The Partnership records the balance of exchange products due to

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
(Dollars in Thousands)

other companies under these agreements at quoted market product prices and the balance of exchange products due from other companies at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

(c) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by using the first-in, first-out (FIFO) method for all inventories.

(d) Revenue Recognition

Terminalling and storage Revenue is recognized for storage contracts based on the contracted monthly tank fixed fee. For throughput contracts, revenue is recognized based on the volume moved through the Partnership s terminals at the contracted rate. For the Partnership s tolling agreement, revenue is recognized based on the contracted monthly reservation fee and throughput volumes moved through the facility. When lubricants and drilling fluids are sold by truck, revenue is recognized upon delivering product to the customers as title to the product transfers when the customer physically receives the product.

Natural gas services Natural gas gathering and processing revenues are recognized when title passes or service is performed. NGL distribution revenue is recognized when product is delivered by truck to our NGL customers, which occurs when the customer physically receives the product. When product is sold in storage, or by pipeline, the Partnership recognizes NGL distribution revenue when the customer receives the product from either the storage facility or pipeline.

Sulfur services Revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership based on specific contract terms at either the shipping or delivery point.

Marine transportation Revenue is recognized for contracted trips upon completion of the particular trip. For time charters, revenue is recognized based on a per day rate.

(e) Equity Method Investments

The Partnership uses the equity method of accounting for investments in unconsolidated entities where the ability to exercise significant influence over such entities exists. Investments in unconsolidated entities consist of capital contributions and advances plus the Partnership s share of accumulated earnings as of the entities latest fiscal year-ends, less capital withdrawals and distributions. Investments in excess of the underlying net assets of equity method investees, specifically identifiable to property, plant and equipment, are amortized over the useful life of the related assets. Excess investment representing equity method goodwill is not amortized but is evaluated for impairment, annually. Under certain provisions of ASC 350-20, related to goodwill, this goodwill is not subject to amortization and is accounted for as a component of the investment. Equity method investments are subject to impairment under the provisions of ASC 323-10, which relates to the equity method of accounting for investments in common stock. No portion of the net income from these entities is included in the Partnership s operating income.

The Partnership s Prism Gas subsidiary owns an unconsolidated 50% interest in Waskom, Matagorda, and PIPE. As a result, these assets are accounted for by the equity method.

(f) Property, Plant, and Equipment

Owned property, plant, and equipment is stated at cost, less accumulated depreciation. Owned buildings and equipment are depreciated using straight-line method over the estimated lives of the respective assets.

Equipment under capital leases is stated at the present value of minimum lease payments less accumulated amortization. Equipment under capital leases is amortized straight line over the estimated useful life of the asset.

Routine maintenance and repairs are charged to operating expense while costs of betterments and renewals are capitalized. When an asset is retired or sold, its cost and related accumulated depreciation are removed from the accounts and the difference between net book value of the asset and proceeds from disposition is recognized as gain or loss.

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(g) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with certain provisions of ASC 350-20. Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment under certain provisions of ASC 360-10 related to accounting for impairment or disposal of long-lived assets. Other intangible assets primarily consist of covenants not-to-compete and contracts obtained through business combinations and are being amortized over the life of the respective agreements.

Goodwill is subject to a fair-value based impairment test on an annual basis, or more often if events or circumstances indicate there may be impairment. The Partnership is required to identify their reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support value of the goodwill.

The Partnership performed the annual impairment tests as of September 30, 2009, September 30, 2008 and September 30, 2007, respectively. In performing such tests, it was determined that there were four reporting units which contained goodwill. These reporting units were in each of the four reporting segments: terminalling, natural gas services, marine transportation, and sulfur services. The estimated fair value of the reporting units with goodwill were developed using the guideline public company method, the guideline transaction method, and the discounted cash flow (DCF) method using observable market data where available. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, the Partnership would be required to perform the second step of the impairment test, as this is an indication that the reporting unit goodwill may be impaired. At September 30, 2009, 2008 and 2007 the estimated fair value of each of the four reporting units was in excess of its carrying value, which indicates no impairment existed.

As a result of the deterioration in the overall stock market subsequent to September 30, 2008 and the decline in the Partnership s unit price, the Partnership reviewed specific factors, as outlined under certain provisions of ASC 350-20, to determine if the Partnership had a trigging event that required it to test the goodwill for impairment as of December 31, 2008. These factors included whether there have been any significant fundamental changes since the annual impairment test to (i) the Partnership as a whole or to the reporting units, including regulatory changes, (ii) the level of operating cash flows, (iii) the expectation of future levels of operating cash flows, (iv) the executive management team, and (v) the carrying value of the other long-lived assets. While these factors did not indicate a triggering event occurred, the Partnership s unit price fell to a point by December 31, 2008 that resulted in the total market capitalization being less than the partner s equity. The Partnership determined this to be a triggering event requiring the Partnership to perform an impairment test as of December 31, 2008. As a result of the goodwill impairment test for each of the four reporting units as of December 31, 2008, no impairment was determined to exist.

(h) Debt Issuance Costs

In connection with the Partnership s multi-bank credit facility, on November 10, 2005, it incurred debt issuance costs of $3,258. In connection with the amendment and expansion of the Partnership s multi-bank credit facility on June 30, 2006, it incurred debt issuance costs of $372. In connection with the amendment and expansion of the Partnership s multi-bank credit facility on December 28, 2007, it incurred debt issuance costs of $252. In connection with the amendment and expansion of the Partnership s multi-bank credit facility in December, 2009, it incurred debt issuance costs of $10,383. Due to a reduction in the number of lenders under the Partnership s multi-bank credit agreement, $495 of the existing debt issuance costs were determined not to have continuing benefit and were expensed during 2009. These debt issuance costs, along with the remaining unamortized deferred issuance costs relating to the line of credit facility as of November 10, 2005 which remain deferred, are amortized over the term of

the revised debt arrangement.

Amortization of debt issuance cost, which is included in interest expense for the years ended December 31, 2009, 2008 and 2007, totaled $1,689, $1,120, and $1,233, respectively, and accumulated amortization amounted to $105 and $5,445 at December 31, 2009 and 2008, respectively. The unamortized balance of debt issuance costs, classified as other assets amounted to $10,885 and $2,086 at December 31, 2009 and 2008, respectively.

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(i) Impairment of Long-Lived Assets

In accordance with ASC 360-10, long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Partnership has not identified any triggering events in 2009, 2008 or 2007 that would require an assessment for impairment of long-lived assets.

(j) Asset Retirement Obligation

Under ASC 410-20, which relates to accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets, the Partnership records an Asset Retirement Obligation (ARO) at fair value in the period in which it is incurred by increasing the carrying amount of the related long-lived asset. In each subsequent period, the liability is accreted over time towards the ultimate obligation amount and the capitalized costs are depreciated over the useful life of the related asset. The Partnership s fixed assets include land, buildings, transportation equipment, storage equipment, marine vessels and operating equipment.

The transportation equipment includes pipeline systems. The Partnership transports NGLs through the pipeline system and gathering system. The Partnership also gathers natural gas from wells owned by producers and delivers natural gas and NGLs on the Partnership s pipeline systems, primarily in Texas and Louisiana to the fractionation facility of the Partnership s 50% owned joint venture. The Partnership is obligated by contractual or regulatory requirements to remove certain facilities or perform other remediation upon retirement of the Partnership s assets. However, the Partnership is not able to reasonably determine the fair value of the asset retirement obligations for the Partnership s trunk and gathering pipelines and the Partnership s surface facilities, since future dismantlement and removal dates are indeterminate. In order to determine a removal date of the Partnership s gathering lines and related surface assets, reserve information regarding the production life of the specific field is required. As a transporter and gatherer of natural gas, the Partnership is not a producer of the field reserves, and the Partnership therefore does not have access to adequate forecasts that predict the timing of expected production for existing reserves on those fields in which the Partnership gathers natural gas. In the absence of such information, the Partnership is not able to make a reasonable estimate of when future dismantlement and removal dates of the Partnership s gathering assets will occur. With regard to the Partnership s trunk pipelines and their related surface assets, it is impossible to predict when demand for transportation of the related products will cease. The Partnership s right-of-way agreements allow us to maintain the right-of-way rather than remove the pipe. In addition, the Partnership can evaluate the Partnership s trunk pipelines for alternative uses, which can be and have been found. The Partnership will record such asset retirement obligations in the period in which more information becomes available for us to reasonably estimate the settlement dates of the retirement obligations.

(k) Derivative Instruments and Hedging Activities

In accordance with certain provisions of ASC 815-10 related to accounting for derivative instruments and hedging activities, all derivatives and hedging instruments are included on the balance sheet as an asset or liability measured at fair value and changes in fair value are recognized currently in earnings unless specific hedge accounting criteria are met. If a derivative qualifies for hedge accounting, changes in the fair value can be offset against the change in the fair value of the hedged item through earnings or recognized in other comprehensive income until such time as the hedged item is recognized in earnings.

Derivative instruments not designated as hedges are being marked to market with all market value adjustments being recorded in the consolidated statements of operations. As of December 31, 2009, the Partnership has designated

a portion of its derivative instruments as qualifying cash flow hedges. Fair value changes for these hedges have been recorded in accumulated other comprehensive income as a component of equity.

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(l) Comprehensive Income

Comprehensive income includes net income and other comprehensive income. Other comprehensive income for the partnership includes unrealized gains and losses on derivative financial instruments. In accordance ASC 815-10, the partnership records deferred hedge gains and losses on its derivative financial instruments that qualify as cash flow hedges as other comprehensive income.

(m) Unit Grants

In August 2009, the Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan from treasury shares purchased by the Partnership in the open market for $77. These units vest in 25% increments beginning in January 2010 and will be fully vested in January 2013.

In May 2008, the Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan from treasury shares purchased by the Partnership in the open market for $93. These units vest in 25% increments beginning in January 2009 and will be fully vested in January 2012.

In May 2007, the Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan. These units vest in 25% increments beginning in January 2008 and will be fully vested in January 2011.

In January 2006, the Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan. These units vest in 25% increments on the anniversary of the grant date each year and will be fully vested in January 2010.

The Partnership accounts for the transaction under certain provisions of FASB ASC 505-50-55 related to equity-based payments to non-employees. The cost resulting from the share-based payment transactions was $98, $39, and $46 for the years ended December 31, 2009, 2008 and 2007, respectively. The Partnership s general partner contributed cash of $2 in May 2007 to the Partnership in conjunction with the issuance of these restricted units in order to maintain its 2% general partner interest in the Partnership.

(n) Incentive Distribution Rights

The Partnership s general partner, Martin Midstream GP LLC, holds a 2% general partner interest and certain incentive distribution rights in the Partnership. Incentive distribution rights represent the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution, any cumulative arrearages on common units, and 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 target distribution levels entitle the general partner to receive 15% of quarterly cash distributions in excess of $0.55 per unit until all unit holders have received $0.625 per unit, 25% of quarterly cash distributions in excess of $0.625 per unit until all unit holders have received $0.75 per unit, and 50% of quarterly cash distributions in excess of $0.75 per unit. For the years ended December 31, 2009, 2008 and 2007, the general partner received $2,896, $2,495, and $1,087 in incentive distributions.

(o) Net Income per Unit

In March 2008, the FASB amended the provisions of 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. To the extent the partnership agreement does not explicitly limit distributions to the general partner, any earnings in excess of distributions are to be allocated to the general partner and limited partners utilizing the distribution formula for available cash specified in the partnership agreement. 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 losses specified in the partnership agreement. ASC 260-10 is to be

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applied retrospectively for all financial statements presented and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years.

The Partnership adopted the amended provisions of ASC 260-10 on January 1, 2009. Adoption did not impact the Partnership s computation of earnings per limited partner unit as cash distributions exceeded earnings for the years ended December 31, 2009, 2008 and 2007, respectively, and the IDRs do not share in losses under the partnership agreement. In the event the Partnership s earnings exceed cash distributions, ASC 260-10 will have an impact on the computation of the Partnership s earnings per limited partner unit. The Partnership agreement does not explicitly limit distributions to the general partner; therefore, any earnings in excess of distributions are to be allocated to the general partner and limited partners utilizing the distribution formula for available cash specified in the Partnership agreement. For years ended December 31, 2009, 2008 and 2007, the general partner s interest in net income, including the IDRs, represents distributions declared after period end on behalf of the general partner interest and IDRs less the allocated excess of distributions over earnings for the periods.

General and limited partner interest in net income includes only net income of the Cross assets since the date of acquisition. Accordingly, net income of the Partnership is adjusted to remove the net income attributable to the Cross assets prior to the date of acquisition and such income is allocated to the Parent. The recognition of the beneficial conversion feature for the period is considered a deemed distribution to the subordinated unit holders and reduces net income available to common limited partners in computing net income per unit.

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 beneficial conversion feature is added back to net income available to common limited partners, 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 table reconciles net income to limited partners interest in net income:

	Years Ended December 31,		
	2009	**2008**	**2007**
Net income attributable to Martin Midstream Partners L. P	$ 22,203	$ 43,558	$ 32,561
Less pre-acquisition income allocated to Parent	1,664	748	7,622
Less general partner s interest in net income:			
Distributions payable on behalf of IDRs	2,896	2,495	1,087
Distributions payable on behalf of general partner interest	949	914	758
Distributions payable to the general partner interest in excess of earnings allocable to the general partner interest	(596)	(108)	(281)
Less beneficial conversion feature	111		
Limited partners interest in net income	$ 17,179	$ 39,509	$ 23,375

The weighted average units outstanding for basic net income per unit were 14,680,807, 14,529,826, and 14,018,799 for years ended December 31, 2009, 2008 and 2007, respectively. For diluted net income per unit, the weighted average units outstanding were increased by 3,968, 4,896 and 3,746 units for the years ended December 31, 2009, 2008 and 2007, respectively, due to the dilutive effect of restricted units granted under the Partnership s long-term incentive plan.

(p) Indirect Selling, General and Administrative Expenses

Indirect selling, general and administrative expenses are incurred by Martin Resource Management Corporation (Martin Resource Management) and allocated to the Partnership to cover costs of centralized corporate functions such

as accounting, treasury, engineering, information technology, risk management and other corporate services. Such expenses are based on the percentage of time spent by Martin Resource Management s personnel that provide such centralized services. Under the omnibus agreement, we are required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. The amount of this

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reimbursement was capped at $2,000 through November 1, 2007 when the cap expired. For the years ended December 31, 2009, 2008 and 2007, the Conflicts Committee of our general partner approved reimbursement amounts of $3,542, $2,896, and $1,493, respectively, reflecting our allocable share of such expenses. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually.

(q) Environmental Liabilities and Litigation

The Partnership s policy is to accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

(r) Accounts Receivable and Allowance for Doubtful Accounts.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Partnership s best estimate of the amount of probable credit losses in the Partnership s existing accounts receivable.

(s) 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 of America. Actual results could differ from those estimates.

(t) Income Taxes

With respect to the Partnership s taxable subsidiary (Woodlawn Pipeline Co., Inc.) and the Cross assets prior to the date of acquisition (see Notes 2(a) and 5(b)), income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(3) FAIR VALUE MEASUREMENTS

During the first quarter of 2008, the Partnership adopted certain provisions of ASC 820 related to fair value measurements and disclosures, which established a framework for measuring fair value and expanded disclosures about fair value measurements. The adoption of this guidance had no impact on the Partnership s financial position or results of operations.

ASC 820 applies to all assets and liabilities that are being measured and reported on a fair value basis. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value of each asset and liability carried at fair value into one of the following categories:

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 are not corroborated by market data.

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The Partnership s derivative instruments, which consist of commodity and interest rate swaps, are required to be measured at fair value on a recurring basis. The fair value of the Partnership s derivative instruments is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets, which is considered Level 2. Refer to Note 13 for further information on the Partnership s derivative instruments and hedging activities.

The following items are measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 at December 31, 2009:

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate derivatives	$ 1,286	$	$ 1,286	$
Commodity derivatives	586		586	
Total assets	$ 1,872	$	$ 1,872	$
Liabilities				
Interest rate derivatives	$ 6,611	$	$ 6,611	$
Commodity derivatives	616		616	
Total liabilities	$ 7,227	$	$ 7,227	$

The following items are measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 at December 31, 2008:

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Commodity derivatives	$ 5,092	$	$ 5,092	$

Liabilities				
Interest rate derivatives	$ 10,780	$	$ 10,780	$

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FASB ASC 825-10-65, *Disclosures about Fair Value of Financial Instruments*, requires that the Partnership disclose estimated fair values for its financial instruments. Fair value estimates are set forth below for the Partnership s financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Accounts and other receivables, trade and other accounts payable, other accrued liabilities, income taxes payable and due from/to affiliates   The carrying amounts approximate fair value because of the short maturity of these instruments.

Long-term debt including current installments   The carrying amount of the revolving and term loan facilities approximates fair value due to the debt having a variable interest rate.

(4) RECENT ACCOUNTING PRONOUNCEMENTS

In April 2009, the FASB amended the provisions of ASC 805-10, 805-20 and 805-30 related to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, to amend the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under ASC. Under the new guidance, assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. The Partnership adopted this guidance on January 1, 2009. As the provisions of this guidance are applied prospectively to business combinations with an acquisition date on or after the guidance became effective, the impact to the Partnership cannot be determined until the transactions occur. No such transactions have occurred during 2009.

In March 2008, the FASB amended the provisions of 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. ASC 260-10 is to be applied retrospectively for all financial statements presented and is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Partnership adopted this guidance on January 1, 2009. See Note 1(o) for more information.

In March 2008, FASB amended the provisions of ASC 815-10-65 related to disclosures about derivative instruments and hedging activities, which requires enhanced disclosures concerning (1) the manner in which an entity uses derivatives (and the reasons it uses them), (2) the manner in which derivatives and related hedged items are accounted for and (3) the effects that derivatives and related hedged items have on an entity s financial position, financial performance and cash flows. ASC 815-10-65 is effective for financial statements issued for fiscal years and interim periods beginning on or after November 15, 2008. The Partnership adopted this guidance on January 1, 2009, and the adoption did not have a material impact on the Partnership s financial position or results of operations.

In December 2007, FASB amended the provisions of ASC 805-10-65 related to business combinations, which establishes principles and requirements for how an acquiror in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase price and (3) determines what information to disclose to enable users of the consolidated financial statements to evaluate the nature and financial effects of the business combination. ASC 805-10-65 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Partnership adopted certain provisions of ASC 805-10-65 on January 1, 2009. The application of ASC 805-10-65 will cause management to evaluate future transactions under different conditions than previously completed significant acquisitions, particularly related to the near-term and long-term economic impact of expensing transaction costs. No such transactions have occurred during 2009.

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(5) ACQUISITIONS

(a) East Harrison Pipeline System.

In December 2009, the Partnership acquired, through Prism Gas, from Woodward Partners, Ltd. 6.45 miles of gathering pipeline referred to as the East Harrison Pipeline System for $327. The system currently transports approximately 500 Mcfd of natural gas under various transport contracts which provide for a minimum monthly fee.

(b) Cross assets.

In November 2009, the Partnership closed a transaction with Martin Resource Management (Martin Resource Management) and Cross Refining & Marketing, Inc. (Cross), a wholly owned subsidiary of Martin Resource Management, in which the Partnership acquired certain specialty lubricants processing assets (Assets) from Cross for total consideration of $44,878 (the Contribution). As consideration for the Contribution, the Partnership issued 804,721 common units and 889,444 subordinated units to Martin Resource Management at a price of $27.96 and $25.16 per limited partner unit, respectively. In connection with the Contribution, the General Partner made a capital contribution of $918 in cash to the Partnership in order to maintain its 2% general partner interest.

The Partnership accounted for the Cross acquisition as a transfer of net assets between entities under common control pursuant to the provisions of FASB ASC 850. The Cross assets were recorded at $32,957, which represents the amounts reflected in Martin Resource Management s historical consolidated financial statements. The difference between the purchase price and Martin Resource Management s carrying value of the combined net assets acquired and liabilities assumed was recorded as an adjustment to partners capital.

(c) Stanolind Assets.

In January 2008, the Partnership acquired 7.8 acres of land, a deep water dock and two sulfuric acid tanks at its Stanolind terminal in Beaumont, Texas from Martin Resource Management for $5,983 which was allocated to property, plant and equipment. Martin Resource Management entered into a lease agreement with the Partnership for use of the sulfuric acid tanks. In connection with the acquisition, the Partnership borrowed approximately $6,000 under its credit facility.

(6) ISSUANCE OF COMMON UNITS

In addition to the units referred to in Note 5(b) above, in November 2009, the Partnership closed a private equity sale with Martin Resource Management, under which Martin Resource Management invested $20,000 in cash in the Partnership in exchange for 714,285 common units of the Partnership. In connection with the issuance of these common units, the General Partner made a capital contribution to the Partnership of $408 in order to maintain its 2% general partner interest in the Partnership.

(7) INVENTORIES

Components of inventories at December 31, 2009 and 2008 were as follows:

	2009	2008
Natural gas liquids	$ 15,002	$ 10,530
Sulfur	2,540	6,522
Sulfur Based Products	10,053	14,879
Lubricants	4,684	8,110
Other	3,231	2,713
	$ 35,510	$ 42,754

(8) PROPERTY, PLANT AND EQUIPMENT

At December 31, 2009 and 2008, property, plant, and equipment consisted of the following:

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	Depreciable Lives	2009	2008
Land		$ 15,759	$ 16,899
Improvements to land and buildings	10-25 years	48,704	47,237
Transportation equipment	3-7 years	1,786	2,443
Storage equipment	5-20 years	59,597	52,296
Marine vessels	4-25 years	210,593	200,473
Operating equipment	3-20 years	238,956	211,934
Furniture, fixtures and other equipment	3-20 years	1,646	2,168
Construction in progress		6,995	43,158
		$ 584,036	$ 576,608

Depreciation expense for the year ended December 31, 2009, 2008, and 2007 was $37,027, $33,060, and $24,780, respectively, which includes amortization of fixed assets acquired under capital lease obligations of $116, $0, and $0 for 2009, 2008, and 2007; respectively. Gross assets under capital leases were $7,764 and $0 at December 31, 2009 and 2008. Accumulated amortization associated with capital leases was $116 and $0 at December 31, 2009 and 2008.

(9) GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2009 and 2008, goodwill balances consisted of the following:

	2009	2008
Carrying amount of goodwill:		
Terminalling and storage	$ 883	$ 1,020
Natural gas services	29,010	29,010
Sulfur services	5,349	5,349
Marine transportation	2,026	2,026
	$ 37,268	$ 37,405

In conjunction with the sale of the Partnership s railcar unloading facility at Mont Belvieu, $137 of goodwill was allocated from the terminalling and storage segment to the carrying value of the disposed assets in accordance with certain provisions of ASC 350-20 related to goodwill. See Note 16 for more information regarding the disposal of the Mont Belvieu facility.

At December 31, 2009 and 2008, covenants not-to-compete balances consisted of the following:

	2009	2008
Covenants not-to-compete:		
Terminalling and storage	$ 1,928	$ 1,956
Natural gas services		40
Sulfur services	100	790
	2,028	2,786
Less accumulated amortization	1,324	1,572

	$ 704	$ 1,214

Intangible assets consists of the covenants not-to-compete listed above, customer contracts associated with gathering and processing assets and a transportation contract associated with the residue gas pipeline. The covenants not-to-compete and contracts are presented in the consolidated balance sheets as other assets, net. Aggregate amortization expense for amortizing intangible assets was $2,479, $1,833, and $1,543 for the years ended December 31, 2009, 2008, and 2007, respectively. Estimated amortization expenses for the years subsequent to December 31, 2009 are as follows: 2010 $600; 2011 $516; 2012 $512; 2013 $514; 2014 $435; subsequent years -$1,279.

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(10) LEASES

The Partnership has numerous non-cancelable operating leases primarily for transportation and other equipment. The leases generally provide that all expenses related to the equipment are to be paid by the lessee. Management expects to renew or enter into similar leasing arrangements for similar equipment upon the expiration of the current lease agreements. The Partnership also has cancelable operating lease land rentals and outside marine vessel charters. Certain of our marine vessels have been acquired under capital leases.

The Partnership s future minimum lease obligations as of December 31, 2009 consist of the following:

Fiscal year	Operating Leases	Capital Leases
2010	$ 4,233	$ 1,102
2011	4,036	1,102
2012	3,205	1,117
2013	2,457	1,135
2014	2,176	1,147
Thereafter	6,975	6,751
Total	23,082	12,354
Less amounts representing interest costs		6,071
Present value of net minimum capital lease payments		6,283
Less current installments		111
Present value of net minimum capital lease payments, excluding current installments	$	$ 6,172

Rent expense for operating leases for the years ended December 31, 2009, 2008 and 2007 was $11,158, $12,527 and $12,492; respectively. The amount recognized in interest expense for capital leases was $250, $0, and $0 for the years ended December 31, 2009, 2008 and 2007; respectively.

(11) INVESTMENT IN UNCONSOLIDATED ENTITIES AND JOINT VENTURES

The Partnership s Prism Gas Systems I, L.P. (Prism Gas) subsidiary owns an unconsolidated 50% interest in Waskom Gas Processing Company (Waskom), the Matagorda Offshore Gathering System (Matagorda) and Panther Interstate Pipeline Energy LLC (PIPE). As a result, these assets are accounted for by the equity method.

On June 30, 2006, the Partnership s Prism Gas subsidiary, acquired a 20% ownership interest in a partnership which owns the lease rights to the assets of the Bosque County Pipeline (BCP). The lease contract terminated in June 2009, and, as such, the investment was fully amortized as of June 30, 2009.

In accounting for the acquisition of the interests in Waskom, Matagorda and PIPE, the carrying amount of these investments exceeded the underlying net assets by approximately $46,176. The difference was attributable to property and equipment of $11,872 and equity method goodwill of $34,304. The excess investment relating to property and equipment is being amortized over an average life of 20 years, which approximates the useful life of the underlying assets. Such amortization amounted to $594 for the years ended December 31, 2009, 2008 and 2007, respectively, has been recorded as a reduction of equity in earnings of unconsolidated equity method investees. The remaining unamortized excess investment relating to property and equipment was $9,497, $10,091 and $10,685 at December 31, 2009, 2008 and 2007, respectively. The equity-method goodwill is not amortized; however, it is analyzed for impairment annually or if changes in circumstance indicate that a potential impairment exists. No impairment was

recorded in 2009, 2008 or 2007.

As a partner in Waskom, the Partnership receives distributions in kind of natural gas liquids (NGLs) that are retained according to Waskom s contracts with certain producers. The NGLs are valued at prevailing market prices. In

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addition, cash distributions are received and cash contributions are made to fund operating and capital requirements of Waskom.

Activity related to these investment accounts is as follows:

	Waskom	PIPE	Matagorda	BCP	Total
Investment in unconsolidated entities, December 31, 2007	$ 70,237	$ 1,582	$ 3,693	$ 178	$ 75,690
Distributions in kind	(9,725)				(9,725)
Return on investments	(500)				(500)
Contributions to (distributions from) unconsolidated entities:					
Cash contributions	1,250	129		80	1,459
Contributions to (distributions from) unconsolidated entities for operations	920				920
Return of investments	(300)	(180)	(745)		(1,225)
Equity in earnings:					
Equity in earnings from operations	13,646	(302)	640	(166)	13,818
Amortization of excess investment	(550)	(15)	(29)		(594)
Investment in unconsolidated entities, December 31, 2008	$ 74,978	$ 1,214	$ 3,559	$ 92	$ 79,843

	Waskom	PIPE	Matagorda	BCP	Total
Investment in unconsolidated entities, December 31, 2008	$ 74,978	$ 1,214	$ 3,559	$ 92	$ 79,843
Distributions in kind	(5,826)				(5,826)
Distributions from unconsolidated entities	(650)				(650)
Contributions to unconsolidated entities:					
Cash contributions		90			90
Contributions to unconsolidated entities for operations	958				958
Return of investments		(490)	(375)	(12)	(877)
Equity in earnings:					
Equity in earnings (losses) from operations	6,934	602	182	(80)	7,638
Amortization of excess investment	(550)	(15)	(29)		(594)
Investment in unconsolidated entities, December 31 2009	$ 75,844	$ 1,401	$ 3,337	$	$ 80,582

Select financial information for significant unconsolidated equity method investees is as follows:

	As of December 31,		Years ended December 31,	
	Total Assets	Partners Capital	Revenues	Net Income
2009				
Waskom	$ 79,604	$ 70,561	$ 71,044	$ 13,867
2008				
Waskom	$ 78,661	$ 67,730	$ 115,031	$ 27,292
2007				
Waskom	$ 66,772	$ 57,149	$ 81,797	$ 22,019

As of December 31, 2009 and December 31, 2008 the amount of the Partnership s consolidated retained earnings that represents undistributed earnings related to the unconsolidated equity method investees is $32,717 and $27,208, respectively. There are no material restrictions to transfer funds in the form of dividends, loans or advances related to the equity method investees.

As of December 31, 2009 and 2008, the Partnership s interest in cash of the unconsolidated equity method investees is $704 and $1,956, respectively.

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(12) LONG-TERM DEBT AND CAPITAL LEASES

At December 31, 2009 and December 31, 2008, long-term debt consisted of the following:

	December 31, 2009	December 31, 2008
** $267,722 (at December 31, 2008 - $195,000) Revolving loan facility at variable interest rate (8.08%* weighted average at December 31, 2009), due November 2012 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	$ 230,251	$ 165,000
$67,949 (at December 31, 2008 - $130,000) Term loan facility at variable interest rate (4.73%* at December 31, 2009), converts to revolver loan on November 2010, secured by substantially all of the Partnership assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in Partnership s operating subsidiaries	67,949	130,000
Capital lease obligations	6,283	
Total long-term debt and capital lease obligations	304,483	295,000
Less current installments of capital lease obligations	111	
Long-term debt and capital lease obligations, net of current installments	$ 304,372	$ 295,000

* 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. The applicable margin for revolving loans that are LIBOR loans ranges from 3.50% to 4.75% and the applicable margin for revolving loans that are base prime rate loans ranges from 2.50% to 3.75%. The applicable margin for term loans that are LIBOR loans ranges from 3.50% to 4.75% and the applicable margin for term loans that are base prime rate loans ranges from 2.50% to 3.75%. The applicable margin for existing LIBOR borrowings is 4.50%. Effective January 1, 2010, the applicable margin for existing LIBOR borrowings will remain at 4.50%. As a result of the Partnership s leverage ratio test as of December 31, 2009, effective April 1, 2010, the applicable margin for

existing LIBOR borrowings will remain at 4.50% under the current credit facility.

** Effective October 2008, the Partnership entered into a cash flow hedge that swaps $40,000 of floating rate to fixed rate. The fixed rate cost is 2.820% plus the Partnership s applicable LIBOR borrowing spread. Effective April 2009, the Partnership entered into two subsequent swaps to lower its effective fixed rate to 2.580% plus the Partnership s applicable LIBOR borrowing spread. These cash flow hedges mature in October 2010.

** Effective January 2008, the Partnership entered into a cash flow hedge that swaps $25,000 of floating rate to fixed rate. The fixed rate cost is 3.400% plus the Partnership s

applicable LIBOR borrowing spread. Effective April 2009, the Partnership entered into two subsequent swaps to lower its effective fixed rate to 3.050% plus the Partnership s applicable LIBOR borrowing spread. These cash flow hedges mature in January 2010.

** Effective September 2007, the Partnership entered into a cash flow hedge that swaps $25,000 of floating rate to fixed rate. The fixed rate cost is 4.605% plus the Partnership s applicable LIBOR borrowing spread. Effective March 2009, the Partnership entered into two subsequent swaps to lower its effective fixed rate to 4.305% plus the Partnership s applicable LIBOR borrowing spread. These cash flow hedges

mature in
September 2010.

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** Effective November 2006, the Partnership entered into an interest rate swap that swaps $30,000 of floating rate to fixed rate. The fixed rate cost is 4.765% plus the Partnership s applicable LIBOR borrowing spread. This cash flow hedge matures in March 2010.

** Effective March 2006, the Partnership entered into a cash flow hedge that swaps $75,000 of floating rate to fixed rate. The fixed rate cost is 5.25% plus the Partnership s applicable LIBOR borrowing spread. Effective February 2009, the Partnership entered into two subsequent swaps to lower its effective fixed rate to 5.10% plus the Partnership s

applicable
LIBOR
borrowing
spread. These
cash flow hedges
mature in
November 2010.

On November 10, 2005, the Partnership entered into a new $225,000 multi-bank credit facility comprised of a $130,000 term loan facility and a $95,000 revolving credit facility, which includes a $20,000 letter of credit sub-limit. This credit facility also includes procedures for additional financial institutions to become revolving lenders, or for any existing revolving lender to increase its revolving commitment, subject to a maximum of $100,000 for all such increases in revolving commitments of new or existing revolving lenders. Effective June 30, 2006, the Partnership increased its revolving credit facility $25,000 resulting in a committed $120,000 revolving credit facility. Effective December 28, 2007, the Partnership increased its revolving credit facility $75,000 resulting in a committed $195,000 revolving credit facility. Effective December 21, 2009, the Partnership increased its revolving credit facility $72,722 resulting in a committed $267,722 revolving credit facility. The Partnership decreased its term loan facility $62,051 resulting in a $67,949 term loan facility. On November 10, 2010, the term loan converts to a revolver loan which matures on November 9, 2012 along with the aggregate principal amount of all outstanding committed revolver loans outstanding on such date.

Under the amended and restated credit facility, as of December 31, 2009, the Partnership had $230,251 outstanding under the revolving credit facility and $67,949 outstanding under the term loan facility. As of December 31, 2009, irrevocable letters of credit issued under the Partnership s credit facility totaled $2,120.

As of December 31, 2009, the Partnership had $35,351 available under its revolving credit facility. The revolving credit facility is used for ongoing working capital needs and general partnership purposes, and to finance permitted investments, acquisitions and capital expenditures. During 2009, draws on the Partnership s credit facility ranged from a low of $285,000 to a high of $315,000.

The Partnership s obligations under the credit facility are secured by substantially all of the Partnership s assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in its operating subsidiaries and equity method investees. The Partnership may prepay all amounts outstanding under this facility at any time without penalty.

In addition, the credit facility contains various covenants, which, among other things, limit the Partnership s ability to: (i) incur indebtedness; (ii) grant certain liens; (iii) merge or consolidate unless it is the survivor; (iv) sell all or substantially all of its assets; (v) make certain acquisitions; (vi) make certain investments; (vii) make certain capital expenditures; (viii) make distributions other than from available cash; (ix) create obligations for some lease payments; (x) engage in transactions with affiliates; (xi) engage in other types of business; and (xii) incur indebtedness or grant certain liens through its joint ventures.

The credit facility also contains covenants, which, among other things, require the Partnership to maintain specified ratios of: (i) minimum net worth (as defined in the credit facility) of $75,000 plus 50% of net proceeds from equity issuances after November 10, 2005; (ii) trailing four quarters of Earnings Before Interest, Taxes, Depreciation and Amortization as defined in the credit facility, (EBITDA) to interest expense of not less than 3.0 to 1.0 at the end of each fiscal quarter; (iii) total funded debt to EBITDA of not more than 4.75 to 1.00 for each fiscal quarter; and (iv) total secured funded debt to EBITDA of not more than 4.00 to 1.00 for each fiscal quarter. The Partnership was in compliance with the covenants contained in the credit facility for the years ended December 31, 2009 and 2008.

The credit facility also contains certain default provisions relating to Martin Resource Management. If Martin Resource Management no longer controls the Partnership s general partner, the lenders under the

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Partnership s credit facility may declare all amounts outstanding thereunder immediately due and payable. In addition, an event of default by Martin Resource Management under its credit facility could independently result in an event of default under the Partnership s credit facility if it is deemed to have a material adverse effect on the Partnership. Any event of default and corresponding acceleration of outstanding balances under the Partnership s credit facility could require the Partnership to refinance such indebtedness on unfavorable terms and would have a material adverse effect on the Partnership s financial condition and results of operations as well as its ability to make distributions to unitholders.

The Partnership is required to make certain prepayments under the credit facility. If the Partnership receives greater than $15,000 from the incurrence of indebtedness other than under the credit facility, it must prepay indebtedness under the credit facility with all such proceeds in excess of $15,000. Any such prepayments are first applied to the term loan under the credit facility. The Partnership must prepay revolving loans under the credit facility with the net cash proceeds from any issuance of its equity. The Partnership must also prepay indebtedness under the credit facility with the proceeds of certain asset dispositions. Other than these mandatory prepayments, the credit facility requires interest only payments on a quarterly basis until maturity. All outstanding principal and unpaid interest must be paid by November 9, 2012. The credit facility contains customary events of default, including, without limitation, payment defaults, cross-defaults to other material indebtedness, bankruptcy-related defaults, change of control defaults and litigation-related defaults.

In connection with the Partnership s Stanolind asset acquisition on January 22, 2008, the Partnership borrowed approximately $6,000 under its revolving credit facility.

The Partnership paid cash interest in the amount of $18,291, $18,744, and $17,253 for the years ended December 31, 2009, 2008, and 2007 respectively. Capitalized interest was $259, $1,383 and $2,483 for the years ended December 31, 2009, 2008 and 2007 respectively.

(13) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Partnership s results of operations are materially impacted by changes in crude oil, natural gas and natural gas liquids prices and interest rates. In an effort to manage our exposure to these risks, we periodically enter into various derivative instruments, including commodity and interest rate hedges. We are required to recognize all derivative instruments as either assets or liabilities at fair value on our Consolidated Balance Sheets and to recognize certain changes in the fair value of derivative instruments on our Consolidated Statements of Operations.

The Partnership performs, at least quarterly, a retrospective assessment of the effectiveness of our hedge contracts, including assessing the possibility of counterparty default. If we determine that a derivative is no longer expected to be highly effective, we discontinue hedge accounting prospectively and recognize subsequent changes in the fair value of the hedge in earnings. As a result of our effectiveness assessment at December 31, 2009, we believe certain hedge contracts will continue to be effective in offsetting changes in cash flow or fair value attributable to the hedged risk.

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 unless specific hedge accounting criteria are met. If a derivative qualifies for hedge accounting, changes in the fair value can be offset against the change in the fair value of the hedged item through earnings or recognized in accumulated other comprehensive income (AOCI) until such time as the hedged item is recognized in earnings. The Partnership is exposed to the risk that periodic changes in the fair value of derivatives qualifying for hedge accounting will not be effective, as defined, or that derivatives will no longer qualify for hedge accounting. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is recorded to earnings. Likewise, if a hedge ceases to qualify for hedge accounting, any change in the fair value of derivative instruments since the last period is recorded to earnings; however, any amounts previously recorded to AOCI would remain there until such time as the original forecasted transaction occurs, then would be reclassified to earnings or if it is determined that continued reporting of losses in AOCI would lead to recognizing a net loss on the combination of the hedging instrument and the hedge transaction in future periods, then the losses would be immediately reclassified to earnings.

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For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in earnings.

In March 2008, the FASB amended the provisions of ASC Topic 820 related to fair value measurements and disclosures, which changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The Partnership adopted this guidance on January 1, 2009.

Commodity Derivative Instruments

The Partnership is exposed to market risks associated with commodity prices and uses derivatives to manage the risk of commodity price fluctuation. The Partnership has established a hedging policy and monitors and manages the commodity market risk associated with its commodity risk exposure. The Partnership has entered into hedging transactions through 2010 to protect a portion of its commodity exposure. These hedging arrangements are in the form of swaps for crude oil, natural gas, and natural gasoline. In addition, the Partnership is focused on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction.

Due to the volatility in commodity markets, the Partnership is unable to predict the amount of ineffectiveness each period, including the loss of hedge accounting, which is determined on a derivative by derivative basis. This may result, and has resulted in increased volatility in the Partnership s financial results. Factors that have and may continue to lead to ineffectiveness and unrealized gains and losses on derivative contracts include: a substantial fluctuation in energy prices, the number of derivatives the Partnership holds, and significant weather events that have affected energy production. The number of instances in which the Partnership has discontinued hedge accounting for specific hedges is primarily due to those reasons. However, even though these derivatives may not qualify for hedge accounting, the Partnership continues to hold the instruments as it believes they continue to afford the Partnership opportunities to manage commodity risk exposure.

As of December 31, 2009 and 2008, the Partnership has both derivative instruments qualifying for hedge accounting with fair value changes being recorded in AOCI as a component of partners capital and derivative instruments not designated as hedges being marked to market with all market value adjustments being recorded in earnings.

Set forth below is the summarized notional amount and terms of all instruments held for price risk management purposes at December 31, 2009 (all gas quantities are expressed in British Thermal Units, crude oil and natural gas liquids are expressed in barrels). As of December 31, 2009, the remaining term of the contracts extend no later than December 2010, with no single contract longer than one year. For the years ended December 31, 2009, and 2008, changes in the fair value of the Partnership s derivative contracts were recorded in both earnings and in AOCI as a component of partners capital.

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Transaction Type	Total Volume Per Month	Pricing Terms	Remaining Terms of Contracts	Fair Value
Mark to Market Derivatives::				
Crude Oil Swap	3,000 BBL	Fixed price of $72.25 settled against WTI NYMEX average monthly closings	January 2010 to December 2010	(326)
Crude Oil Swap	2,000 BBL	Fixed price of $69.15 settled against WTI NYMEX average monthly closings	January 2010 to December 2010	(290)
Crude Oil Swap	1,000 BBL	Fixed price of $104.80 settled against WTI NYMEX average monthly closings	January 2010 to December 2010	275
Total swaps not designated as cash flow hedges				$(341)
Cash Flow Hedges:				
Natural Gasoline Swap	1,000 BBL	Fixed price of $94.14 settled against Mt. Belvieu Non-TET natural gasoline average monthly postings	January 2010 to December 2010	241
Natural Gas Swap	20,000 Mmbtu	Fixed price of $5.95 settled against IF_ANR_LA first of the month posting	January 2010 to December 2010	42
Natural Gas Swap	12,000 Mmbtu	Fixed price of $6.005 settled against IF_ANR_LA first of the month posting	January 2010 to December 2010	28
Total swaps designated as cash flow hedges				$ 311
Total net fair value of commodity derivatives				$ (30)

Based on estimated volumes, as of December 31, 2009, the Partnership had hedged approximately 50% of its commodity risk by volume for 2010. The Partnership anticipates entering into additional commodity derivatives on an ongoing basis to manage its risks associated with these market fluctuations, and will consider using various

commodity derivatives, including forward contracts, swaps, collars, futures and options, although there is no assurance that the Partnership will be able to do so or that the terms thereof will be similar to the Partnership s existing hedging arrangements.

The Partnership s credit exposure related to commodity cash flow hedges is represented by the positive fair value of contracts to the Partnership at December 31, 2009. These outstanding contracts expose the Partnership to credit loss in the event of nonperformance by the counterparties to the agreements. The Partnership has incurred no losses associated with counterparty nonperformance on derivative contracts.

On all transactions where the Partnership is exposed to counterparty risk, the Partnership analyzes the counterparty s financial condition prior to entering into an agreement, has established a maximum credit limit threshold pursuant to its hedging policy, and monitors the appropriateness of these limits on an ongoing basis. The Partnership has agreements with three counterparties containing collateral provisions. Based on those current agreements, cash deposits are required to be posted whenever the net fair value of derivatives associated with the individual counterparty exceed a specific threshold. If this threshold is exceeded, cash is posted by the Partnership if the value of derivatives is a liability to the Partnership. As of December 31, 2009 the Partnership has no cash collateral deposits posted with counterparties.

The Partnership s principal customers with respect to Prism Gas natural gas gathering and processing are large, natural gas marketing services, oil and gas producers and industrial end-users. In addition, substantially all of the Partnership s natural gas and NGL sales are made at market-based prices. The Partnership s standard gas and NGL sales contracts contain adequate assurance provisions which allows for the suspension of deliveries, cancellation of agreements or discontinuance of deliveries to the buyer unless the buyer provides security for payment in a form satisfactory to the Partnership.

Impact of Commodity Cash Flow Hedges

Crude Oil

For the years ended December 31, 2009, 2008 and 2007, net gains and losses on swap hedge contracts decreased crude revenue by $854, increased crude revenue by $1,745 and decreased crude revenue by $3,374, respectively. As of December 31, 2009 an unrealized derivative fair value gain of $770 related to current and

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terminated cash flow hedges of crude oil price risk was recorded in AOCI. Fair value gains of $147 and $623 are expected to be reclassified into earnings in 2010 and 2011, respectively. The actual reclassification to earnings for contracts remaining in effect will be based on mark-to-market prices at the contract settlement date or for those terminated contracts based on the recorded values at December 31, 2009 adjusted for any impairment, along with the realization of the gain or loss on the related physical volume, which is not reflected above.

Natural Gas

For the years ended December 31, 2009, 2008 and 2007, net gains and losses on swap hedge contracts increased gas revenue by $1,824, decreased gas revenue by $431 and increased gas revenue by $180, respectively. As of December 31, 2009 an unrealized derivative fair value gain of $70 related to cash flow hedges of natural gas was recorded in AOCI. This fair value gain is expected to be reclassified into earnings in 2010. The actual reclassification to earnings will be based on mark-to-market prices at the contract settlement date, along with the realization of the gain or loss on the related physical volume, which is not reflected above.

Natural Gas Liquids

For the years ended December 31, 2009, 2008 and 2007, net gains and losses on swap hedge contracts decreased liquids revenue by $186, $316 and $521, respectively. As of December 31, 2009, an unrealized derivative fair value gain of $1,072 related to current and terminated cash flow hedges of natural gas liquids price risk was recorded in AOCI. Fair value gains of $180 and $892 are expected to be reclassified into earnings in 2010 and 2011, respectively. The actual reclassification to earnings for contracts remaining in effect will be based on mark-to-market prices at the contract settlement date or for those terminated contracts based on the recorded values at December 31, 2009 adjusted for any impairment, along with the realization of the gain or loss on the related physical volume, which is not reflected above.

For information regarding fair value amounts and gains and losses on commodity derivative instruments and related hedged items, see Tabular Presentation of Fair Value Amounts, and Gains and Losses on Derivative Instruments and Related Hedged Items within this Note.

Interest Rate Derivative Instruments

The Partnership is exposed to market risks associated with interest rates. The Partnership enters into interest rate swaps to manage interest rate risk associated with the Partnership s variable rate debt and term loan credit facilities. 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 unless specific hedge accounting criteria are met. If a derivative qualifies for hedge accounting, changes in the fair value can be offset against the change in the fair value of the hedged item through earnings or recognized in accumulated other comprehensive income (AOCI) until such time as the hedged item is recognized in earnings.

The Partnership has entered into several cash flow hedge agreements with an aggregate notional amount of $165,000 to hedge its exposure to increases in the benchmark interest rate underlying its variable rate revolving and term loan credit facilities.

The Partnership designated the following swap agreements as cash flow hedges. Under these swap agreements, the Partnership pays a fixed rate of interest and receives a floating rate based on a one-month or three-month U.S. Dollar LIBOR rate to match the floating rates of the bank facility at which the Partnership periodically elects to borrow. Because these swaps are designated as a cash flow hedge, the changes in fair value, to the extent the swap is effective, are recognized in other comprehensive income until the hedged interest costs are recognized in earnings. At the inception of these hedges, these swaps were identical to the hypothetical swap as of the trade date, and will continue to be identical as long as the accrual periods and rate resetting dates for the debt and these swaps remain equal. This condition results in a 100% effective swap for the following hedges:

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		Paying	Receiving	
Date of Hedge	Notional Amount	Fixed Rate	Floating Rate	Maturity Date
April 2009	$ 40,000	1.000%	1 Month LIBOR	October 2010
April 2009	$ 25,000	0.720%	1 Month LIBOR	January 2010
March 2009	$ 25,000	1.290%	1 Month LIBOR	September 2010
February 2009	$ 75,000	1.295%	1 Month LIBOR	November 2010

The following interest rate swaps have been de-designated as cash flow hedges by the Partnership:

		Paying	Receiving	
Date of Hedge	Notional Amount	Fixed Rate	Floating Rate	Maturity Date
September 2007	$ 25,000	4.605%	3 Month LIBOR	September 2010
March 2006	$ 75,000	5.250%	3 Month LIBOR	November 2010
October 2008	$ 40,000	2.820%	3 Month LIBOR	October 2010
January 2008	$ 25,000	3.400%	3 Month LIBOR	January 2010

The following interest rate swaps have not been designated as cash flow hedges by the Partnership:

		Paying	Receiving	
Date of Hedge	Notional Amount	Fixed Rate	Floating Rate	Maturity Date
November 2006	$ 30,000	4.765%	3 Month LIBOR	March 2010

		Receiving	Paying	
Date of Hedge	Notional Amount	Fixed Rate	Floating Rate	Maturity Date
April 2009	$ 25,000	1.070%	3 Month LIBOR	January 2010
April 2009	$ 40,000	1.240%	3 Month LIBOR	October 2010
March 2009	$ 25,000	1.590%	1 Month LIBOR	September 2010
February 2009	$ 75,000	1.445%	1 Month LIBOR	November 2010

These swaps have been recorded at fair value with an offset to current earnings.

The Partnership recognized increases in interest expense of $7,762 and $3,416 for the years ended December 31, 2009 and 2008, respectively, related to the difference between the fixed rate and the floating rate of interest on the interest rate swap and net cash settlement of interest rate hedges.

The net effective fixed rate for the Partnership s hedged portion of long-term debt is 4.17% as of December 31, 2009. See Note 12 for more information on the Partnership s long-term debt and related interest rates.

For information regarding fair value amounts and gains and losses on interest rate derivative instruments and related hedged items, see Tabular Presentation of Fair Value Amounts, and Gains and Losses on Derivative Instruments and Related Hedged Items within this Note.

Tabular Presentation of Fair Value Amounts, and Gains and Losses on Derivative Instruments and Related Hedged Items

The following table summarizes the fair values and classification of our derivative instruments in our Consolidated Balance Sheet:

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Fair Values of Derivative Instruments in the Consolidated Balance Sheet

	Derivative Assets			Derivative Liabilities		
		Fair Values December 31,			Fair Values December 31,	
	Balance Sheet Location	2009	2008	Balance Sheet Location	2009	2008
Derivatives designated as hedging instruments:	Current Assets:			Current Liabilities:		
Interest rate contracts	Fair value of derivatives	$	$	Fair value of derivatives	$ 923	$ 5,427
Commodity contracts	Fair value of derivatives	311	2,430	Fair value of derivatives		
		311	2,430		923	5,427
	Non-current Assets:			Non-current Liabilities:		
Interest rate contracts	Fair value of derivatives			Fair value of derivatives		4,050
Commodity contracts	Fair value of derivatives		716	Fair value of derivatives		
			716			4,050
Total derivatives designated as hedging instruments		$ 311	$ 3,146		$ 923	$ 9,477
Derivatives not designated as hedging instruments:	Current Assets:			Current Liabilities:		
Interest rate contracts	Fair value of derivatives	$ 1,286	$	Fair value of derivatives	$ 5,688	$ 1,051
Commodity contracts	Fair value of derivatives	275	1,193	Fair value of derivatives	616	
		1,561	1,193		6,304	1,051
	Non-current Assets:			Non-current Liabilities:		
	Fair value of derivatives			Fair value of derivatives		252

Interest rate contracts						
Commodity contracts	Fair value of derivatives		753	Fair value of derivatives		
			753			252
Total derivatives not designated as hedging instruments		$ 1,561	$ 1,946		$ 6,304	$ 1,303

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Effect of Derivative Instruments on the Consolidated Statement of Operations
For the Years Ended December 31, 2009, 2008 and 2007

	Amount of Gain or (Loss) Recognized in OCI on Derivatives			Effective Portion: Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income			Ineffective Portion and Amount Excluded from Effectiveness Testing: Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives		
	2009	**2008**	**2007**		**2009**	**2008**	**2007**		**2009**	**2008**	**2007**
Derivatives designated as hedging instruments											
Interest rate contracts	$ (1,854)	$ (5,435)	$ (3,793)	Interest Expense	$ (7,345)	$	$	Interest Expense	$	$	$
Commodity contracts.	14	4,219	(3,569)	Natural Gas Services Revenues	2,667	(2,819)	108	Natural Gas Services Revenues	(21)	(224)	(586)
Total derivatives designated as hedging instruments	$ (1,840)	$ 1,216	$ (7,362)		$ (4,678)	$ (2,819)	$ 108		$ (21)	$ (224)	$ (586)

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives		
		2009	**2008**	**2007**
Derivatives not designated as hedging instruments				
Interest rate contracts	Interest Expense	$ (547)	$ (1,052)	$ (677)
Commodity contracts	Natural Gas Services Revenues	(1,863)	4,041	(3,237)

Total derivatives not designated as hedging instruments	$ (2,410)	$ 2,989	$ (3,914)

Amounts expected to be reclassified into earnings for the subsequent twelve month period are losses of $3,988 for interest rate cash flow hedges and gains of $397 for commodity cash flow hedges.

(14) RELATED PARTY TRANSACTIONS

As of December 31, 2009, Martin Resource Management owns 6,703,823 of the Partnership s common units and 889,444 subordinated units collectively representing approximately 44.8% of the Partnership s outstanding limited partnership units. The Partnership s general partner is a wholly-owned subsidiary of Martin Resource Management. The Partnership s general partner owns a 2.0% general partner interest in the Partnership and the Partnership s incentive distribution rights. The Partnership s general partner s ability, as general partner, to manage and operate the Partnership, and Martin Resource Management s ownership as of December 31, 2009 of approximately 44.8% of the Partnership s outstanding limited partnership 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 transactions:

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Omnibus Agreement. The Partnership and its general partner are parties to an omnibus agreement 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 of Martin Resource Management s trade names and trademarks. The omnibus agreement contains certain non-competition provisions applicable to Martin Resource Management as long as Martin Resource Management controls the Partnership s general partner. Under the omnibus agreement, Martin Resource Management provides the Partnership with corporate staff and support services that are substantially identical in nature and quality to the services previously provided by Martin Resource Management in connection with its management and operation of the Partnership s assets during the one-year period prior to the date of the agreement. The omnibus agreement requires the Partnership to reimburse Martin Resource Management for all direct expenses it incurs or payments it makes on the Partnership s behalf or in connection with the operation of its business. There is no monetary limitation on the amount the Partnership is required to reimburse Martin Resource Management for direct expenses. In addition to the direct expenses, Martin Resource Management is entitled to reimbursement for a portion of indirect general and administrative and corporate overhead expenses.

Under the omnibus agreement, the Partnership is required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. The amount of this reimbursement was capped at $2,000 through November 1, 2007 when the cap expired. For the years ended December 31, 2009, 2008, and 2007, the Conflicts Committee of the Partnership s general partner approved reimbursement amounts of $3,500, $2,900, and $1,500, respectively, reflecting the Partnership s allocable share of such expenses. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually. These indirect expenses cover all of the centralized corporate functions Martin Resource Management provides for the Partnership, such as accounting, treasury, clerical billing, information technology, administration of insurance, general office expenses and employee benefit plans and other general corporate overhead functions the Partnership shares with Martin Resource Management s retained businesses.

The provisions of the omnibus agreement regarding Martin Resource Management s services will terminate if Martin Resource Management ceases to control the Partnership s general partner. The omnibus agreement prohibits the Partnership from entering into any material agreement with Martin Resource Management without the prior approval of the Conflicts Committee of the Partnership s general partner s board of directors. For purposes of the omnibus agreement, the term material agreements means any agreement between the Partnership and Martin Resource Management that requires aggregate annual payments in excess of the then-applicable limitation on the reimbursable amount of indirect general and administrative expenses. Under the omnibus agreement, Martin Resource Management has granted the Partnership a nontransferable, nonexclusive, royalty-free right and license to use certain of its trade names and marks, as well as the trade names and marks used by some of its affiliates. The omnibus agreement may be amended by written agreement of the parties; provided, however that it may not be amended without the approval of the Conflicts Committee of the Partnership s general partner if such amendment would adversely affect the Partnership s unitholders. The omnibus agreement, other than the indemnification provisions and the provisions limiting the amount for which the Partnership will reimburse Martin Resource Management for general and administrative services performed on behalf of the Partnership, will terminate if the Partnership is no longer an affiliate of Martin Resource Management.

Motor Carrier Agreement. The Partnership is a party to a motor carrier agreement effective January 1, 2006 with Martin Transport, Inc., a wholly owned subsidiary of Martin Resource Management through which Martin Resource Management operates its land transportation operations. This agreement replaced a prior agreement between the Partnership and Martin Transport, Inc. for land transportation services. Under the agreement, Martin Transport agreed to ship the Partnership s NGL shipments as well as other liquid products. This agreement was amended in November 2006, January 2007, April 2007 and January 2008 to add additional point-to-point rates and to lower certain fuel and insurance surcharges being charged to the Partnership. The agreement has an initial term that expired

in December 2007 but will continue to automatically renew for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term. The Partnership has the right to terminate this agreement at any time by providing 90 days prior notice. Under this agreement, Martin Transport transports the Partnership s NGL shipments as well as other liquid products. The Partnership s shipping rates were fixed for the first year of the agreement, subject to certain cost adjustments. These rates are subject to any adjustment to which the parties mutually agree or

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in accordance with a price index. Additionally, during the term of the agreement, shipping charges are also subject to fuel surcharges determined on a weekly basis in accordance with the U.S. Department of Energy s national diesel price list. Under this Agreement, Martin Transport has indemnified the Partnership against all claims arising out of the negligence or willful misconduct of Martin Transport and its officers, employees, agents, representatives and subcontractors. The Partnership indemnified Martin Transport against all claims arising out of the negligence or willful misconduct of the Partnership and its officers, employees, agents, representatives and subcontractors. In the event a claim is the result of the joint negligence or misconduct of Martin Transport and the Partnership, indemnification obligations will be shared in proportion to each party s allocable share of such joint negligence or misconduct.

Marine Transportation Agreement. The Partnership is a party to a marine transportation agreement effective January 1, 2006, which was amended January 1, 2007, under which it provides marine transportation services to Martin Resource Management on a spot-contract basis at applicable market rates. This agreement replaced a prior agreement between the Partnership and Martin Resource Management covering marine transportation services which expired November 2005. Effective each January 1, this agreement automatically renews for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 60 days prior to the expiration of the then-applicable term. The fees the Partnership charges Martin Resource Management are based on applicable market rates.

Product Storage Agreement. The Partnership is a party to a product storage agreement with Martin Resource Management under which it leases storage space at Martin Resource Management s underground storage facility located in Arcadia, Louisiana. Effective each November 1, this agreement automatically renews for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term. The Partnership s per-unit cost under this agreement may be adjusted annually based on a price index. The Partnership indemnified Martin Resource Management from any damages resulting from the Partnership s delivery of products that are contaminated or otherwise fail to conform to the product specifications established in the agreement, as well as any damages resulting from its transportation, storage, use or handling of products.

Marine Fuel. The Partnership is a party to an agreement with Martin Resource Management under which Martin Resource Management provides it with marine fuel at its docks located in Mobile, Alabama, Theodore, Alabama, Pascagoula, Mississippi and Tampa, Florida. The Partnership agreed to purchase all of its marine fuel requirements that occur in the areas serviced by these docks under this agreement. Martin Resource Management provides fuel at an established margin above its cost on a spot-contract basis. Each January 1, this agreement automatically renews for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term. This agreement provides the Partnership with marine fuel from its locations in the Gulf of Mexico at a fixed rate over the Platt s U.S. Gulf Coast Index for #2 Fuel Oil.

Purchaser Use Easement, Ingress-Egress Easement, and Utility Facilities Easement. The Partnership entered into a Purchaser Use Easement, Ingress-Egress Easement and Utility Facilities Easement with Martin Resource Management under which it has complete, non-exclusive access to, and use of, all marine terminal facilities, all loading and unloading facilities for vessels, barges and trucks and other common use facilities located at the Stanolind terminal. This easement has a perpetual duration. The Partnership did not incur any expenses, costs or other financial obligations under the easement. Martin Resource Management is obligated to maintain, and repair all common use areas and facilities located at this terminal. The Partnership shares the use of these common use areas and facilities only with Martin Resource Management who also have tanks located at the Stanolind facility.

Terminal Services Agreements. The Partnership entered into terminal services agreements under which it provides terminalling services to Martin Resource Management. These agreements automatically renew on a month-to-month basis until either party terminates the agreements by giving written notice to the other party at least 60 days prior to the expiration of the then-applicable term. The per gallon throughput fee the Partnership charges under these

agreements may be adjusted annually based on a price index.

Specialty Terminal Services Agreement. The Partnership entered into an agreement under which Martin Resource Management provides certain specialty terminal services to it. Effective each November 1, this agreement

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automatically renews for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term. The fees the Partnership charges under this agreement may be adjusted annually based on a price index.

Lubricants and Drilling Fluids Terminal Services Agreement. The Partnership is a party to a Lubricants and Drilling Fluids Terminal Services Agreement under which Martin Resource Management provides terminal services to the Partnership. Subsequent to April 2009, this agreement only applies to drilling fluids as the Partnership sold its lubricants business at its marine shore based terminals, including inventory, to Martin Resource Management. Effective each January 1 this agreement, which was amended in July 2004, automatically renews for successive one-year terms until either party terminates the agreement by giving written notice to the other party at least 60 days prior to the end of the then-applicable term. The per gallon handling fee and the percentage of the Partnership s commissions it is charged under this agreement may be adjusted annually based on a price index.

Cross Terminalling Agreement. The Partnership is party to the Cross Terminalling Agreement under which it provides terminalling services to Cross Oil Refining & Marketing, Inc., an affiliate of Martin Resource Management. This agreement expired on October 27, 2008 and the Partnership entered into a new five-year agreement which expires October 31, 2013. The per gallon throughput fee the Partnership charges under this agreement may be adjusted during each year of the agreement.

Cross Tolling Agreement. The Partnership is a party to a long-term, fee for services-based Tolling Agreement with Cross Oil Refining & Marketing, Inc., an affiliate of Martin Resource Management effective November 24, 2009 whereby Martin Resource Management pays the Partnership for the processing of its crude oil into finished products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts. Under this Tolling Agreement, Martin Resource Management agreed to refine a minimum of 6,500 barrels per day of crude oil at the refinery at a price of $4.00 per barrel. Any additional barrels are refined at a price of $4.28 per barrel. In addition, Martin Resource Management agreed to pay a monthly reservation fee of $1,300 and a periodic fuel surcharge fee based on certain parameters specified in the Tolling Agreement. All of these fees (other than the fuel surcharge) are subject to escalation annually based upon the greater of 3% or the increase in the Consumer Price Index for a specified annual period. In addition, every three years, the parties can negotiate an upward or downward adjustment in the fees subject to their mutual agreement. The Tolling Agreement has a 12 year term, subject to certain termination rights specified therein.

Sulfuric Acid Sales Agency Agreement. The Partnership is party to a Sulfuric Acid Sales Agency Agreement under which Martin Resource Management purchases and markets the sulfuric acid produced by the Partnership s sulfuric acid production plant at Plainview, Texas, and which is not consumed by the Partnership s internal operations. This agreement, which was amended and restated in August 2008 and further amended in July 2009, will remain in place until the Partnership terminates it by providing 180 days written notice. Under this agreement, the Partnership sells all of its excess sulfuric acid to Martin Resource Management. Martin Resource Management then markets such acid to third-parties and the Partnership shares in the profit of Martin Resource Management s sales of the excess acid to such third-parties.

Waskom Agreements. The Partnership is a party to a product purchase agreement and a gas processing agreement and a liquids fractionation and treating agreement with Waskom whereby the Partnership purchases product from and supplies product to Waskom. These intercompany transactions totaled approximately $47,500 for the year ended December 31, 2009. In addition, the Partnership, through its Prism subsidiary provides certain administrative services for Waskom pursuant to Waskom s partnership agreement.

Miscellaneous Agreements. From time to time the Partnership enters into other miscellaneous agreements with Martin Resource Management for the provision of other services or the purchase of other goods.

The tables below summarize the related party transactions that are included in the related financial statement captions on the face of the Partnership s Consolidated Statements of Operations. The revenues, costs and expenses reflected in these tables are tabulations of the related party transactions that are recorded in the corresponding caption

of the consolidated financial statement and do not reflect a statement of profits and losses for related party transactions.

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The impact of related party revenues from sales of products and services is reflected in the consolidated financial statement as follows:

	2009	2008	2007
Revenues:			
Terminalling and storage	$ 19,998	$ 18,362	$ 11,816
Marine transportation	19,370	24,956	23,729
Product sales:			
Natural gas services	238	4,024	3,206
Sulfur services	5,445	22,631	4,326
Terminalling and storage	155	49	45
	5,838	26,704	7,577
	$ 45,206	$ 70,022	$ 43,122

The impact of related party cost of products sold is reflected in the consolidated financial statement as follows:

Cost of products sold:			
Natural gas services	$ 56,914	$ 92,322	$ 62,686
Sulfur services	12,583	13,282	13,992
Terminalling and storage	287	533	
	$ 69,784	$ 106,137	$ 76,678

The impact of related party operating expenses is reflected in the consolidated financial statement as follows:

Operating expenses			
Marine transportation	$ 20,464	$ 22,586	$ 20,891
Natural gas services	1,491	1,625	1,538
Sulfur services	4,496	3,737	1,234
Terminalling and storage	10,833	9,713	5,328
	$ 37,284	$ 37,661	$ 28,991

The impact of related party selling, general and administrative expenses is reflected in the consolidated financial statement as follows:

Selling, general and administrative:			
Natural gas services	$ 1,116	880	927
Sulfur services	2,504	2,508	1,770
Terminalling and storage			41
Indirect overhead allocation, net of reimbursement	3,542	2,896	1,351
	$ 7,162	$ 6,284	$ 4,089

The amount of related party interest expense reflected in the consolidated financial statement is $872, $1,656 and $592 for the years ending December 31, 2009, 2008 and 2007, respectively.

(15) PARTNERS CAPITAL

As of December 31, 2009, partners capital consists of 16,057,832 common limited partner units, representing a 92.9% partnership interest, 889,444 subordinated limited partner units, representing a 5.1% partnership interest and a 2% general partner interest. Martin Resource Management through a subsidiary, owned an approximate 43.9% limited partnership interest consisting of 6,703,823 common limited partner units and 889,444 subordinated limited partner units and a 2% general partner interest.

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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.

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.

(16) GAIN ON DISPOSAL OF ASSETS

On April 30, 2009, the Partnership sold certain assets comprising the Mont Belvieu railcar unloading facility, which yielded net proceeds from the sale in the amount of $19,610. The assets sold related to twenty railcar spaces and Phase I of a newly constructed major expansion that had not been placed in operation. This disposition was separated into two phases because of the contractual requirement to complete the two phases of construction in progress prior to final closing of the transaction. The disposition related to Phase I, which was completed in April 2009, was comprised of property, plant and equipment and allocated goodwill included in the Partnership s terminalling segment with an aggregate carrying value of $14,329. This transaction yielded a gain on the sale of property, plant, and equipment in the amount of $5,281, a portion which was deferred in the amount of $200 for expected future warranty costs associated with the sale. The gain is included in other operating income in the consolidated statement of operations. As of December 31, 2009, the remaining portion of the property, plant and equipment in Phase II is under construction and the Partnership is expected to make additional expenditures which will increase the carrying value of the disposed assets by approximately $600.

The Partnership received $2,500 during the third quarter of 2009 for funds previously held in escrow relating to the completion of Phase II. The Partnership will receive an additional $250 upon final completion of Phase II, which is expected to occur during the first quarter of 2010. The current balance related to Phase II construction is $1,775 and was offset against the escrow monies received resulting in a current liability of $725. The balance is included in other current liabilities on the Company s consolidated balance sheet at December 31, 2009. The Partnership expects to recognize a gain in the amount of approximately $375 during the first quarter of 2010. Additionally, the Partnership expects to receive payments of $375 in April 2010 and April 2012, respectively, which represent payments from an indemnity escrow resulting from the sale. The Partnership expects to record these amounts as gains in each respective quarter. The Partnership paid down the outstanding revolving loans under its credit facility with the net cash proceeds from this sale of assets. The amount paid down is available for future borrowings under the revolving credit facility.

(17) GAIN ON INVOLUNTARY CONVERSION OF ASSETS

During the third quarter of 2008, several of the Partnership s facilities in the Gulf of Mexico were in the path of two major hurricanes, Hurricane Gustav and Hurricane Ike. Physical damage to the Partnership s assets caused by the hurricanes, as well as the related removal and recovery costs, are covered by insurance subject to a deductible. Losses incurred as a result of a single hurricane (an occurrence) are limited to a maximum aggregate deductible of $250 for flood damage and $1,000 minimum plus 2% of total insured value at each location for wind damage. The partnership s total flood coverage is $15,000 and total wind coverage is $100,000.

The most significant damage to the Partnership s assets was sustained at the Neches location. Property damage also occurred at the Partnership s Galveston, Sabine Pass, Intracoastal City, Cameron East, Cameron West, Freeport, Venice, Port Fourchon, Stanolind, Mont Belvieu, and Spindletop locations. Based on an analysis of the damage as performed by the Partnership has estimated its non-cash charge as $1,207 for all locations which is equal to the net-book value of the damaged assets. A receivable was established for the expected insurance recovery equal to the

impairment charge and for all expenditures related to water damage less the for mentioned deductible.

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The Partnership recognized a $1,207 estimated loss during the last half of 2008, which approximates the Partnership s hurricane deductible under its applicable insurance policies, incurred as a result of Hurricanes Gustav and Ike. The loss is included in operating expenses in the consolidated statement of operations for the year ended December 31, 2008.

Insurance proceeds received as a result of the aforementioned claims exceeded net book value of the Partnership s assets determined to be impaired. During 2009, the Partnership received insurance proceeds of $2,224 for this involuntary conversion of assets, which resulted in a gain of $1,017 which is reported in other operating income.

(18) INCOME TAXES

The operations of a partnership are generally not subject to income taxes, except as discussed below, because its income is taxed directly to its partners. Effective January 1, 2007, the Partnership is subject to the Texas margin tax as described below. Woodlawn, a subsidiary of the Partnership, is subject to income taxes due to its corporate structure. A current federal income tax benefit of $1,061 and a current federal income tax expense of $239 and $118, related to the operation of the subsidiary, were recorded for the years ended December 31, 2009, 2008 and 2007, respectively. In connection with the Woodlawn acquisition, the Partnership also established deferred income taxes of $8,964 associated with book and tax basis differences of the acquired assets and liabilities. The basis differences are primarily related to property, plant and equipment.

The activities of the Cross assets prior to the acquisition by the Partnership were subject to federal and state income taxes. Accordingly, income taxes have been included in the Cross assets operating results for 2007, 2008 and the period from January 1, 2009 through November 24, 2009. Related payables/receivables are included in Due to affiliates and Other current assets, respectively, on the consolidated balance sheet.

A deferred tax expense related to the Woodlawn basis differences and the basis differences of the Cross assets of $294, $2,442 and $680 was recorded for the years ended December 31, 2009, 2008 and 2007, respectively. A deferred tax liability of $8,628 and $17,499 related to these basis differences existed at December 31, 2009 and 2008, respectively. A deferred tax asset related to the activities of the Cross assets of $165 is included in Other current assets at December 31, 2008.

In 2006, the Texas Governor signed into law a Texas margin tax (H.B. No. 3) which restructures the state business tax by replacing the taxable capital and earned surplus components of the current franchise tax with a new taxable margin component. Since the tax base on the Texas margin tax is derived from an income-based measure, the margin tax is construed as an income tax and, therefore, the recognition of deferred taxes applies to the new margin tax. The impact on deferred taxes as a result of this provision is immaterial. State income taxes attributable to the Texas margin tax of $422, $749 and $538 were recorded in income tax expense for the years ended December 31, 2009, 2008 and 2007, respectively.

An income tax receivable of $760 is included in Other current assets at December 31, 2009. An income tax liability of $454 and $414 existed at December 31, 2009 and 2008, respectively.

The components of income tax expense (benefit) from operations recorded for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Current:			
Federal	$ (311)	$ (1,879)	$ 3,642
State	609	835	1,273
	298	(1,044)	4,915
Deferred:			
Federal	294	2,442	680

$ 592	$ 1,398	$ 5,595

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(19) BUSINESS SEGMENTS

The Partnership has four reportable segments: terminalling and storage, natural gas services, marine transportation, and sulfur services. The Partnership s reportable segments are strategic business units that offer different products and services. The operating income of these segments is reviewed by the chief operating decision maker to assess performance and make business decisions.

The accounting policies of the operating segments are the same as those described in Note 2 of the Notes to Consolidated Financial Statements. The Partnership evaluates the performance of its reportable segments based on operating income. There is no allocation of administrative expenses or interest expense.

	Operating Revenues	Intersegment Eliminations	Operating Revenues After Eliminations	Depreciation and Amortization	Operating Income (Loss) after Eliminations	Capital Expenditures
Year ended December 31, 2009:						
Terminalling and storage	$ 109,513	$ (4,219)	$ 105,294	$ 15,717	$ 17,899	$ 18,404
Natural gas services	408,989	(7)	408,982	4,527	5,666	5,010
Sulfur services	79,631	(2)	79,629	6,151	13,776	7,909
Marine transportation	72,103	(3,623)	68,480	13,111	3,156	4,523
Indirect selling, general, and administrative					(6,077)	
Total	$ 670,236	$ (7,851)	$ 662,385	$ 39,506	$ 34,420	$ 35,846
Year ended December 31, 2008:						
Terminalling and storage	$ 122,960	$ (4,189)	$ 118,771	$ 12,947	$ 11,399	$ 31,439
Natural gas services	679,375		679,375	4,067	3,725	9,565
Sulfur services	372,987	(1,038)	371,949	5,751	37,180	6,884
Marine transportation	80,059	(3,710)	76,349	12,128	5,570	53,562
Indirect selling, general, and administrative					(5,510)	
Total	$ 1,255,381	$ (8,937)	$ 1,246,444	$ 34,893	$ 52,364	$ 101,450

Year ended December 31, 2007:						
Terminalling and storage	$ 98,295	$ (865)	$ 97,430	$ 9,239	$ 23,332	$ 29,218
Natural gas services	515,992		515,992	3,252	4,492	4,090
Sulfur services	131,602	(276)	131,326	5,013	13,040	14,489
Marine transportation	63,533	(3,954)	59,579	8,819	4,270	37,562
Indirect selling, general, and administrative					(3,199)	
Total	$ 809,422	$ (5,095)	$ 804,327	$ 26,323	$ 41,935	$ 85,359

The following table reconciles operating income to net income:

	Year Ended December 31,		
	2009	**2008**	**2007**
Operating income	$ 34,420	$ 52,364	$ 41,935
Equity in earnings of unconsolidated entities	7,044	13,224	10,941
Interest expense	(18,995)	(21,433)	(15,125)
Other, net	326	801	405
Income taxes	(592)	(1,398)	(5,595)
Net income	$ 22,203	$ 43,558	$ 32,561

Revenues from one customer in the Natural gas services segment were $72,492, $103,424 and $66,989 for the years ended December 31, 2009, 2008 and 2007, respectively.

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Total assets by segment at December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Total assets:			
Terminalling and storage	$ 178,941	$ 195,229	$ 159,681
Natural gas services	256,397	232,059	268,187
Sulfur services	110,953	128,367	121,672
Marine transportation	139,648	150,667	107,064
Total assets	$ 685,939	$ 706,322	$ 656,604

Investments in unconsolidated entities totaled $80,582 and $79,843 at December 31, 2009 and 2008, respectively, and are included in the natural gas services segment.

(20) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

CONSOLIDATED QUARTERLY INCOME STATEMENT INFORMATION

	First[1] Quarter	Second[1] Quarter	Third[1] Quarter	Fourth[1] Quarter
	(Dollar in thousands, except per unit amounts)			
2009				
Revenues	$ 163,051	$ 139,201	$ 159,272	$ 200,861
Operating Income	7,906	15,958	6,062	4,494
Equity in earnings of unconsolidated entities	2,059	1,028	2,139	1,818
Net income	5,213	10,760	4,274	1,956
Net income per limited partner unit [2]	$ 0.28	$ 0.48	$ 0.26	$ 0.15

	First[1] Quarter	Second[1] Quarter	Third[1] Quarter	Fourth[1] Quarter
	(Dollar in thousands, except per unit amounts)			
2008				
Revenues	$ 318,839	$ 318,649	$ 372,856	$ 236,100
Operating Income	7,553	6,513	16,707	21,591
Equity in earnings of unconsolidated entities	3,510	4,372	3,503	1,839
Net income	7,066	5,328	14,136	17,028
Net income per limited partner unit [2]	$ 0.51	$ 0.25	$ 0.88	$ 1.08

	First[1] Quarter	Second[1] Quarter	Third[1] Quarter	Fourth[1] Quarter
	(Dollar in thousands, except per unit amounts)			
2007				
Revenues	$ 170,376	$ 170,964	$ 195,338	$ 267,649
Operating Income	15,527	9,065	11,189	6,154
	2,050	2,418	2,736	3,737

Equity in earnings of unconsolidated entities				
Net income	10,585	7,532	8,157	6,287
Net income per limited partner unit [2]	$ 0.42	$ 0.41	$ 0.35	$ 0.49

[1] Financial information for 2007, 2008 and for the period January 1, 2009 through November 24, 2009 has been revised to include results attributable to the Cross assets. See Note 2(a).

[2] Net income per limited partner unit is calculated as net income attributable to the limited partners, which excludes income attributable to the Cross assets. See Note 2(o).

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(21) COMMITMENTS AND CONTINGENCIES

As a result of a routine inspection by the U.S. Coast Guard of the Partnership s tug Martin Explorer at the Freeport Sulfur Dock Terminal in Tampa, Florida, the Partnership has been informed that an investigation has been commenced concerning a possible violation of the Act to Prevent Pollution from Ships, 33 USC 1901, et. seq., and the MARPOL Protocol 73/78. In connection with this matter, two employees of Martin Resource Management who provide services to the Partnership were served with grand jury subpoenas during the fourth quarter of 2007. The Partnership is cooperating with the investigation and, as of the date of this report, no formal charges, fines and/or penalties have been asserted against the Partnership.

In addition to the foregoing, from time to time, the Partnership is subject to various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership.

On May 2, 2008, the Partnership received a copy of a petition filed in the District Court of Gregg County, Texas (the Court) by Scott D. Martin (the Plaintiff) against Ruben S. Martin, III (the Defendant) with respect to certain matters relating to Martin Resource Management. The Defendant is an executive officer of Martin Resource Management, the Plaintiff and the Defendant are executive officers of the Partnership s general partner, the Defendant is a director of both Martin Resource Management and the Partnership s general partner, and the Plaintiff is a director of Martin Resource Management. The lawsuit alleged that the Defendant breached a settlement agreement with the Plaintiff concerning certain Martin Resource Management matters and that the Defendant breached fiduciary duties allegedly owed to the Plaintiff in connection with their respective ownership and other positions with Martin Resource Management. Prior to the trial of this lawsuit, the Plaintiff dropped his claims against the Defendant relating to the breach of fiduciary duty allegations. The Partnership is not a party to the lawsuit and the lawsuit does not assert any claims (i) against the Partnership, (ii) concerning the Partnership s governance or operations or (iii) against the Defendant with respect to his service as an officer or director of the Partnership s general partner.

In May 2009, the lawsuit went to trial and on June 18, 2009, the Court entered a judgment (the Judgment) with respect to the lawsuit as further described below. In connection with the Judgment, the Defendant has advised us that he has filed a motion for new trial, a motion for judgment notwithstanding the verdict and a notice of appeal. In addition, on June 22, 2009, the Plaintiff filed a notice of appeal with the Court indicating his intent to appeal the Judgment. The Defendant has further advised the Partnership that on June 30, 2009 he posted a cash deposit in lieu of a bond and the judge has ruled that as a result of such deposit, the enforcement of any of the provisions in the Judgment is stayed until the matter is resolved on appeal. Accordingly, during the pendency of the appeal process, no change in the makeup of the Martin Resource Management Board of Directors is expected.

The Judgment awarded the Plaintiff monetary damages in the approximate amount of $3,200, attorney s fees of approximately $1,600 and interest. In addition, the Judgment grants specific performance and provides that the Defendant is to (i) transfer one share of his Martin Resource Management common stock to the Plaintiff, (ii) take such actions, including the voting of any Martin Resource Management shares which the Defendant owns, controls or otherwise has the power to vote, as are necessary to change the composition of the Board of Directors of Martin Resource Management from a five-person board, currently consisting of the Defendant and the Plaintiff as well as Wes Skelton, Don Neumeyer, and Bob Bondurant (executive officers of Martin Resource Management and the Partnership), to a four-person board to consist of the Defendant and his designee and the Plaintiff and his designee, and (iii) take such actions as are necessary to change the trustees of the Martin Resource Management Employee Stock Ownership Trust (the MRMC ESOP Trust), currently consisting of the Defendant, the Plaintiff and Wes Skelton, to just the Defendant and the Plaintiff. The Judgment is directed solely at the Defendant and is not binding on any other officer, director or shareholder of Martin Resource Management or any trustee of a trust owning Martin Resource Management shares. The Judgment with respect to (ii) above terminated on February 17, 2010, and with respect to (iii) above on the 30th day after the election by the Martin Resource Management shareholders of the first successor Martin Resource Management board after February 17, 2010. However, any enforcement of the Judgment is

stayed pending resolution of the appeal relating to it.

On September 5, 2008, the Plaintiff and one of his affiliated partnerships (the SDM Plaintiffs), on behalf of themselves and derivatively on behalf of Martin Resource Management, filed suit in a Harris County, Texas district

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court against Martin Resource Management, the Defendant, Robert Bondurant, Donald R. Neumeyer and Wesley Skelton, in their capacities as directors of Martin Resource Management (the MRMC Director Defendants), as well as 35 other officers and employees of Martin Resource Management (the Other MRMC Defendants). In addition to their respective positions with Martin Resource Management, Robert Bondurant, Donald Neumeyer and Wesley Skelton are officers of the Partnership s general partner. The Partnership is not a party to this lawsuit, and it does not assert any claims (i) against the Partnership, (ii) concerning the Partnership s governance or operations or (iii) against the MRMC Director Defendants or other MRMC Defendants with respect to their service to the Partnership.

The SDM Plaintiffs allege, among other things, that the MRMC Director Defendants have breached their fiduciary duties owed to Martin Resource Management and the SDM Plaintiffs, entrenched their control of Martin Resource Management and diluted the ownership position of the SDM Plaintiffs and certain other minority shareholders in Martin Resource Management, and engaged in acts of unjust enrichment, excessive compensation, waste, fraud and conspiracy with respect to Martin Resource Management. The SDM Plaintiffs seek, among other things, to rescind the June 2008 issuance by Martin Resource Management of shares of its common stock under its 2007 Long-Term Incentive Plan to the Other MRMC Defendants, remove the MRMC Director Defendants as officers and directors of Martin Resource Management, prohibit the Defendant, Wesley Skelton and Robert Bondurant from serving as trustees of the MRMC Employee Stock Ownership Plan, and place all of the Martin Resource Management common shares owned or controlled by the Defendant in a constructive trust that prohibits him from voting those shares. The SDM Plaintiffs have amended their Petition to eliminate their claims regarding rescission of the issue by Martin Resource Management of shares of its common stock to the MRMC Employee Stock Ownership Plan. The case was abated in July 2009 during the pendency of a mandamus proceeding in the Texas Supreme Court. The Supreme Court denied mandamus relief on November 20, 2009. As of March 4, 2010, no further action has been taken at the trial court level in this matter.

The lawsuits described above are in addition to (i) a separate lawsuit filed in July 2008 in a Gregg County, Texas district court by the daughters of the Defendant against the Plaintiff, both individually and in his capacity as trustee of the Ruben S. Martin, III Dynasty Trust, which suit alleges, among other things, that the Plaintiff has engaged in self-dealing in his capacity as a trustee under the trust, which holds shares of Martin Resource Management common stock, and has breached his fiduciary duties owed to the plaintiffs, and who are beneficiaries of such trust, and (ii) a separate lawsuit filed in October 2008 in the United States District Court for the Eastern District of Texas by Angela Jones Alexander against the Defendant and Karen Yost in their capacities as a former trustee and a trustee, respectively, of the R.S. Martin Jr. Children Trust No. One (f/b/o Angela Santi Jones), which holds shares of Martin Resource Management common stock, which suit alleges, among other things that the Defendant and Karen Yost breached fiduciary duties owed to the plaintiff, who is the beneficiary of such trust, and seeks to remove Karen Yost as the trustee of such trust. With respect to the lawsuit described in (i) above, the Partnership has been informed that the Plaintiff has resigned as a trustee of the Ruben S. Martin, III Dynasty Trust. With respect to the lawsuit described in (ii) above, Angela Jones Alexander has amended her claims to include her grandmother, Margaret Martin, as a defendant. With respect to the lawsuit referenced in (i) above, the case was tried in October 2009 and the jury returned a verdict in favor of the Defendant s daughters against the Plaintiff in the amount of $4,900. On December 22, 2009, the court entered a judgment, reflecting an amount consistent with the verdict, and additionally awarded attorneys fees and interest. On January 7, 2010, the court modified its original judgment and awarded the Defendant s daughters approximately $2,700 in damages, including interest and attorneys fees. The Plaintiff has appealed the judgment.

On September 24, 2008, Martin Resource Management removed Plaintiff as a director of the general partner of the Partnership. Such action was taken as a result of the collective effect of Plaintiff s then recent activities, which the Board of Directors of Martin Resource Management determined were detrimental to both Martin Resource Management and the Partnership. The Plaintiff does not serve on any committees of the board of directors of the Partnership s general partner. The position on the board of directors of the Partnership s general partner vacated by the Plaintiff may be filled in accordance with the existing procedures for replacement of a departing director utilizing the

Nominations Committee of the board of directors of the general partner of the Partnership. This position on the board of directors has not been filled as of March 4, 2010.

On February 22, 2010 as a result of the Harris County Litigation being derivative in nature, Martin Resource Management formed a special committee of its Board of Directors and designated such committee as the Martin Resource Management authority for the purpose of assessing, analyzing and monitoring the Harris County Litigation

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and any other related litigation and making any and all determinations in respect of such litigation on behalf of Martin Resource Management. Such authorization includes, but is not limited to, reviewing the merits of the litigation, assessing whether to pursue claims or counterclaims against various persons or entities, assessing whether to appoint or retain experts or disinterested persons to make determinations in respect of such litigation, and advising and directing Martin Resource Management s general counsel and outside legal counsel with respect to such litigation. The special committee consists of all members of the Martin Resource Management Board of Directors other than the Plaintiff or the Defendant.

(22) CONSOLIDATING FINANCIAL STATEMENTS

In connection with the Partnership s filing of a shelf registration statement on Form S-3 with the Securities and Exchange Commission (the Registration Statement), Martin Operating Partnership L.P. (the Operating Partnership), the Partnership s wholly-owned subsidiary, may issue unconditional guarantees of senior or subordinated debt securities of the Partnership in the event that the Partnership issues such securities from time to time under the registration statement. If issued, the guarantees will be full, irrevocable and unconditional. In addition, the Operating Partnership may also issue senior or subordinated debt securities under the Registration Statement which, if issued, will be fully, irrevocably and unconditionally guaranteed by the Partnership. The Partnership does not provide separate financial statements of the Operating Partnership because the Partnership has no independent assets or operations, the guarantees are full and unconditional and the other subsidiary of the Partnership is minor. There are no significant restrictions on the ability of the Partnership or the Operating Partnership to obtain funds from any of their respective subsidiaries by dividend or loan.

(23) SUBSEQUENT EVENTS

Acquisition by Waskom of the Harrison Pipeline System. On January 15, 2010, the Partnership, through Prism Gas, as 50% owner and the operator of Waskom Gas Processing Company (WGPC), through WGPC s wholly owned subsidiaries Waskom Midstream LLC and Olin Gathering LLC, acquired from Crosstex North Texas Gathering, L.P., a 100% interest in approximately 62 miles of gathering pipeline, two 35 MMcfd dew point control plants and equipment referred to as the Harrison Pipeline System. The Partnership s share of the acquisition cost is approximately $20,000.

Fifth Amendment to Credit Agreement. On January 14, 2010, the Partnership entered into a Fifth Amendment (the Fifth Amendment) to the Credit Agreement. The Fifth Amendment modified the Credit Agreement to, among other things, (1) permit it to invest up to $25,000 in its joint ventures and (2) limit its ability to make capital expenditures.

Increase Joinder. On February 25, 2010, the Partnership entered into a Commitment Increase and Joinder Agreement (the Increase Joinder) with respect to the Credit Agreement. The Increase Joinder increased the maximum amount of borrowings and letters of credit under the Partnership s credit facility from approximately $335,670 to $350,000.

Public Offering. On February 8, 2010, the Partnership completed a public offering of 1,650,000 common units at a price of $32.35 per common unit, before the payment of underwriters discounts, commissions and offering expenses (per unit value is in dollars, not thousands). Following this offering, the common units represented a 93.3% limited partnership interest in the Partnership. Total proceeds from the sale of the 1,650,000 common units, net of underwriters discounts, commissions and offering expenses were $50,585. The Partnership s general partner contributed $1,089 in cash to the Partnership in conjunction with the issuance in order to maintain its 2% general partner interest in the Partnership. On February 8, 2010, the Partnership made a $45,000 payment to reduce the outstanding balance under its revolving credit facility.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized representative.

Martin Midstream Partners L.P.
(Registrant)

By: Martin Midstream GP LLC
It s General Partner

Date: May 4, 2010

By: /s/ Ruben S. Martin
Ruben S. Martin
President and Chief Executive Officer