

MARTIN MIDSTREAM PARTNERS LP

Form 10-Q

April 26, 2019

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us-gaap:MaterialReconcilingItemsMember 2019-01-01 2019-03-31 0001176334 us-gaap:OperatingSegmentsMember
2019-01-01 2019-03-31 0001176334 us-gaap:IntersegmentEliminationMember mmlp:NaturalGasServicesMember
2019-01-01 2019-03-31 0001176334 us-gaap:OperatingSegmentsMember mmlp:TerminallingAndStorageMember
2019-01-01 2019-03-31 0001176334 us-gaap:OperatingSegmentsMember mmlp:NaturalGasServicesMember
2019-01-01 2019-03-31 0001176334 us-gaap:OperatingSegmentsMember mmlp:SulfurServicesMember 2019-01-01

2019-03-31 0001176334 us-gaap:IntersegmentEliminationMember mmlp:TransportationMember 2019-01-01
2019-03-31 0001176334 us-gaap:OperatingSegmentsMember mmlp:TransportationMember 2019-01-01 2019-03-31
0001176334 us-gaap:IntersegmentEliminationMember mmlp:SulfurServicesMember 2019-01-01 2019-03-31
0001176334 us-gaap:IntersegmentEliminationMember 2019-01-01 2019-03-31 0001176334
us-gaap:CommodityContractMember us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember 2018-12-31 0001176334 us-gaap:CommodityContractMember
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2019-03-31 0001176334
mmlp:SeniorNotes2021Member us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:FairValueMeasurementsNonrecurringMember 2019-03-31 0001176334 mmlp:SeniorNotes2021Member
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsNonrecurringMember
2018-12-31 0001176334 mmlp:SeniorNotes2021Member
us-gaap:CarryingReportedAmountFairValueDisclosureMember
us-gaap:FairValueMeasurementsNonrecurringMember 2018-12-31 0001176334 mmlp:SeniorNotes2021Member
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsNonrecurringMember
2019-03-31 0001176334 srt:SubsidiariesMember 2019-01-01 2019-03-31 0001176334 srt:SubsidiariesMember
2018-01-01 2018-03-31 0001176334 us-gaap:SubsequentEventMember 2019-04-18 2019-04-18 utreg:bbi
mmlp:segment mmlp:terminal mmlp:director xbrli:shares iso4217:USD xbrli:pure utreg:mi iso4217:USD xbrli:shares

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission File Number

000-50056

MARTIN MIDSTREAM PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware

05-0527861

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

4200 Stone Road

Kilgore, Texas 75662

(Address of principal executive offices, zip code)

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

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

Title of each class

Trading Symbol(s) Name of each exchange on which registered

Common Units representing limited partnership interests MMLP The NASDAQ Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Yes x No o

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

Yes No

The number of the registrant's Common Units outstanding at April 26, 2019, was 38,899,590.

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

| | March 31, 2019 | December 31, 2018¹ |
|---|---------------------------|--|
| | (Unaudited) | (Unaudited) |
| Assets | | |
| Cash | \$ 227 | \$ 300 |
| Accounts and other receivables, less allowance for doubtful accounts of \$675 and \$576, respectively | 77,420 | 90,757 |
| Product exchange receivables | 181 | 166 |
| Inventories (Note 6) | 70,541 | 86,207 |
| Due from affiliates | 27,035 | 18,845 |
| Fair value of derivatives (Note 10) | 150 | 4 |
| Other current assets | 7,135 | 6,106 |
| Assets held for sale (Note 4) | 5,502 | 5,652 |
| Total current assets | 188,191 | 208,037 |
| Property, plant and equipment, at cost | 1,311,020 | 1,311,573 |
| Accumulated depreciation | (498,138) | (487,840) |
| Property, plant and equipment, net | 812,882 | 823,733 |
| Goodwill | 17,785 | 17,785 |
| Right-of-use assets (Note 9) | 28,109 | — |
| Deferred income taxes, net (Note 19) | 24,412 | — |
| Other assets, net (Note 10) | 23,689 | 24,073 |
| Total assets | \$ 1,095,068 | \$ 1,073,628 |
| Liabilities and Partners' Capital | | |
| Current installments of long-term debt and finance lease obligations (Notes 8 and 9) | \$ 406,650 | \$ 5,409 |
| Trade and other accounts payable | 76,488 | 65,723 |
| Product exchange payables | 14,234 | 13,237 |
| Due to affiliates | 4,103 | 2,135 |
| Income taxes payable | 989 | 445 |
| Other accrued liabilities (Note 10) | 22,150 | 24,802 |
| Total current liabilities | 524,614 | 111,751 |
| Long-term debt and finance lease obligations, net (Notes 8 and 9) | 377,976 | 662,731 |
| Operating lease liabilities (Note 9) | 19,734 | — |
| Other long-term obligations | 8,953 | 10,714 |
| Total liabilities | 931,277 | 785,196 |
| Commitments and contingencies (Note 16) | | |
| Partners' capital (Note 12) | 163,791 | 288,432 |
| Total partners' capital | 163,791 | 288,432 |
| Total liabilities and partners' capital | \$ 1,095,068 | \$ 1,073,628 |

See accompanying notes to consolidated and condensed financial statements.

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¹ Financial information for 2018 has been revised to include results attributable to MTI acquired from Martin Resource Management Corporation. See Note 1 – Nature of Operations and Basis of Presentation.

2

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars and units in thousands, except per unit amounts)

| | Three Months Ended March 31, | |
|--|---|-------------------------|
| | 2019 | 2018¹ |
| Revenues: | | |
| Terminalling and storage * | \$23,104 | \$24,047 |
| Transportation * | 37,795 | 34,359 |
| Natural gas services* | 10,934 | 15,356 |
| Sulfur services | 2,859 | 2,787 |
| Product sales: * | | |
| Natural gas services | 116,474 | 159,162 |
| Sulfur services | 28,734 | 34,900 |
| Terminalling and storage | 31,067 | 36,463 |
| | 176,275 | 230,525 |
| Total revenues | 250,967 | 307,074 |
| Costs and expenses: | | |
| Cost of products sold: (excluding depreciation and amortization) | | |
| Natural gas services * | 106,190 | 138,638 |
| Sulfur services * | 19,696 | 22,218 |
| Terminalling and storage * | 26,871 | 31,980 |
| | 152,757 | 192,836 |
| Expenses: | | |
| Operating expenses * | 56,656 | 56,934 |
| Selling, general and administrative * | 11,144 | 10,939 |
| Depreciation and amortization | 18,982 | 19,990 |
| Total costs and expenses | 239,539 | 280,699 |
| Other operating income (loss) | (720) | 8 |
| Operating income (loss) | 10,708 | 26,383 |
| Other income (expense): | | |
| Interest expense, net | (13,671) | (12,730) |
| Other, net | 3 | — |
| Total other expense | (13,668) | (12,730) |
| Net income (loss) before taxes | (2,960) | 13,653 |
| Income tax expense | (696) | (149) |
| Income (loss) from continuing operations | (3,656) | 13,504 |
| Income from discontinued operations, net of income taxes | — | 1,532 |
| Net income (loss) | (3,656) | 15,036 |
| Less general partner's interest in net (income) loss | 73 | (256) |
| Less pre-acquisition (income) allocated to the general partner | — | (2,218) |
| Less (income) loss allocable to unvested restricted units | 2 | (8) |
| Limited partners' interest in net income (loss) | \$(3,581) | \$12,554 |

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See accompanying notes to consolidated and condensed financial statements.

¹ Financial information for 2018 has been revised to include results attributable to MTI acquired from Martin Resource Management Corporation. See Note 1 – Nature of Operations and Basis of Presentation.

*Related Party Transactions Shown Below

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MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars and units in thousands, except per unit amounts)

*Related Party Transactions Included Above

| | Three Months Ended March 31, | |
|--|---|-------------------------|
| | 2019 | 2018¹ |
| Revenues:* | | |
| Terminalling and storage | \$ 18,972 | \$ 20,008 |
| Transportation | 5,643 | 6,693 |
| Product Sales | 421 | 624 |
| Costs and expenses:* | | |
| Cost of products sold: (excluding depreciation and amortization) | | |
| Sulfur services | 2,574 | 2,848 |
| Terminalling and storage | 5,909 | 5,579 |
| Expenses: | | |
| Operating expenses | 22,536 | 23,088 |
| Selling, general and administrative | 8,535 | 7,926 |

See accompanying notes to consolidated and condensed financial statements.

¹ Financial information for 2018 has been revised to include results attributable to MTI acquired from Martin Resource Management Corporation. See Note 1 – Nature of Operations and Basis of Presentation.

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars and units in thousands, except per unit amounts)

| | Three Months Ended March 31, | |
|--|---|-------------------------|
| | 2019 | 2018¹ |
| Allocation of net income (loss) attributable to: | | |
| Limited partner interest: | | |
| Continuing operations | \$(3,581) | \$11,054 |
| Discontinued operations | — | 1,500 |
| | \$(3,581) | \$12,554 |
| General partner interest: | | |
| Continuing operations | \$(73) | \$225 |
| Discontinued operations | — | 31 |
| | \$(73) | \$256 |
| Net income (loss) per unit attributable to limited partners: | | |
| Basic: | | |
| Continuing operations | \$(0.09) | \$0.29 |
| Discontinued operations | — | 0.04 |
| | \$(0.09) | \$0.33 |
| Weighted average limited partner units - basic | 38,682 | 38,621 |
| Diluted: | | |
| Continuing operations | \$(0.09) | \$0.29 |
| Discontinued operations | — | 0.03 |
| | \$(0.09) | \$0.32 |
| Weighted average limited partner units - diluted | 38,682 | 38,630 |

See accompanying notes to consolidated and condensed financial statements.

¹ Financial information for 2018 has been revised to include results attributable to MTI acquired from Martin Resource Management Corporation. See Note 1 – Nature of Operations and Basis of Presentation.

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

| | Parent Net Investment ¹ | Partners' Capital Common Limited | | General Partner Amount | Total |
|---|---------------------------------------|-------------------------------------|------------|------------------------------|------------|
| | | Units | Amount | | |
| Balances - January 1, 2018 | \$ 24,240 | 38,444,612 | \$ 290,927 | \$ 7,314 | \$ 322,481 |
| Net income | 2,218 | — | 12,562 | 256 | 15,036 |
| Issuance of common units, net | — | — | (101) | — | (101) |
| Issuance of restricted units | — | 633,425 | — | — | — |
| Forfeiture of restricted units | — | (7,000) | — | — | — |
| Cash distributions | — | — | (19,213) | (392) | (19,605) |
| Deemed contribution to Martin Resource Management Corporation | (2,342) | — | — | — | (2,342) |
| Unit-based compensation | — | — | 132 | — | 132 |
| Purchase of treasury units | — | (18,800) | (273) | — | (273) |
| Excess purchase price over carrying value of acquired assets | — | — | (26) | — | (26) |
| Balances - March 31, 2018 | \$ 24,116 | 39,052,237 | \$ 284,008 | \$ 7,178 | \$ 315,302 |
| Balances - January 1, 2019 | \$ 23,720 | 39,032,237 | \$ 258,085 | \$ 6,627 | \$ 288,432 |
| Net loss | — | — | (3,583) | (73) | (3,656) |
| Issuance of restricted units | — | 16,944 | — | — | — |
| Forfeiture of restricted units | — | (118,087) | — | — | — |
| Cash distributions | — | — | (19,221) | (392) | (19,613) |
| Unit-based compensation | — | — | 352 | — | 352 |
| Excess purchase price over carrying value of acquired assets | — | — | (102,393) | — | (102,393) |
| Deferred taxes on acquired assets and liabilities | — | — | 24,781 | — | 24,781 |
| Contribution to parent | (23,720) | — | — | — | (23,720) |
| Purchase of treasury units | — | (31,504) | (392) | — | (392) |
| Balances - March 31, 2019 | \$ — | 38,899,590 | \$ 157,629 | \$ 6,162 | \$ 163,791 |

See accompanying notes to consolidated and condensed financial statements.

¹ Financial information for 2018 has been revised to include results attributable to MTI acquired from Martin Resource Management Corporation. See Note 1 – Nature of Operations and Basis of Presentation.

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

| | Three Months Ended March 31, | |
|---|---|-------------------------|
| | 2019 | 2018¹ |
| Cash flows from operating activities: | | |
| Net income (loss) | \$(3,656) | \$ 15,036 |
| Less: Income from discontinued operations, net of income taxes | — | (1,532) |
| Net income (loss) from continuing operations | (3,656) | 13,504 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,982 | 19,990 |
| Amortization of deferred debt issuance costs | 895 | 819 |
| Amortization of premium on notes payable | (77) | (77) |
| Deferred taxes | 369 | — |
| Loss (gain) on sale of property, plant and equipment | 720 | (8) |
| Derivative loss (gain) | 239 | (2,470) |
| Net cash received (paid) for commodity derivatives | (385) | 2,316 |
| Unit-based compensation | 352 | 132 |
| Change in current assets and liabilities, excluding effects of acquisitions and dispositions: | | |
| Accounts and other receivables | 13,335 | 22,120 |
| Product exchange receivables | (15) | (46) |
| Inventories | 15,665 | 23,306 |
| Due from affiliates | (7,384) | (1,844) |
| Other current assets | (250) | (931) |
| Trade and other accounts payable | 10,933 | (2,711) |
| Product exchange payables | 997 | (1,551) |
| Due to affiliates | 1,162 | (2,181) |
| Income taxes payable | 544 | 149 |
| Other accrued liabilities | (11,038) | (13,234) |
| Change in other non-current assets and liabilities | (785) | 609 |
| Net cash provided by continuing operating activities | 40,603 | 57,892 |
| Net cash provided by discontinued operating activities | — | 1,437 |
| Net cash provided by operating activities | 40,603 | 59,329 |
| Cash flows from investing activities: | | |
| Payments for property, plant and equipment | (6,973) | (16,557) |
| Acquisitions | (23,720) | — |
| Payments for plant turnaround costs | (3,827) | — |
| Proceeds from sale of property, plant and equipment | 574 | (32) |
| Net cash used in continuing investing activities | (33,946) | (16,589) |
| Net cash used in discontinuing investing activities | — | (1,739) |
| Net cash used in investing activities | (33,946) | (18,328) |
| Cash flows from financing activities: | | |
| Payments of long-term debt and finance lease obligations | (89,255) | (101,261) |
| Proceeds from long-term debt | 205,000 | 84,000 |

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| | | |
|---|-----------|-----------|
| Proceeds from issuance of common units, net of issuance related costs | — | (101) |
| Purchase of treasury units | (392) | (273) |
| Deemed distribution to Martin Resource Management Corporation | — | (2,342) |
| Payment of debt issuance costs | (77) | (1,236) |
| Excess purchase price over carrying value of acquired assets | (102,393) | (26) |
| Cash distributions paid | (19,613) | (19,605) |
| Net cash used in financing activities | (6,730) | (40,844) |
| Net increase (decrease) in cash | (73) | 157 |
| Cash at beginning of period | 300 | 89 |
| Cash at end of period | \$227 | \$246 |
| Non-cash additions to property, plant and equipment | \$2,001 | \$1,905 |

See accompanying notes to consolidated and condensed financial statements.

¹ Financial information for 2018 has been revised to include results attributable to MTI acquired from Martin Resource Management Corporation. See Note 1 – Nature of Operations and Basis of Presentation.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2019
(Unaudited)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

The Partnership's unaudited consolidated and condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and U.S. Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial reporting. Accordingly, these financial statements have been condensed and do not include all of the information and footnotes required by U.S. GAAP for annual audited financial statements of the type contained in the Partnership's annual reports on Form 10-K. In the opinion of the management of the Partnership's general partner, all adjustments and elimination of significant intercompany balances necessary for a fair presentation of the Partnership's financial position, results of operations, and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for such interim periods are not necessarily indicative of the results of operations for the full year. These financial statements should be read in conjunction with the Partnership's audited consolidated financial statements and notes thereto included in the Partnership's annual report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on February 19, 2019.

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

Correction of Immaterial Error. The first quarter amounts for 2018 have been revised to reflect a reclassification in the presentation of certain expenses associated with the manufacturing and shipping of product related to a location in the Partnership's Terminalling and Storage operating segment. The reclassification resulted in an increase in operating expenses and a decrease in cost of products sold in the amount of \$1,547 for the three months ended March 31, 2018.

Acquisition of Martin Transport, Inc. On January 2, 2019, the Partnership acquired all of the issued and outstanding equity of Martin Transport, Inc. ("MTI") from Martin Resource Management Corporation. MTI operates a fleet of tank trucks providing transportation of petroleum products, liquid petroleum gas, chemicals, sulfur and other products, as well as owns 23 terminals located throughout the Gulf Coast and Southeastern regions of the United States.

The acquisition of MTI was considered a transfer of net assets between entities under common control. As a result, the acquisition of MTI was recorded at amounts based on the historical carrying value of these assets at January 1, 2019, and the Partnership is required to update its historical financial statements to include the activities of MTI as of the date of common control. See Note 3 for more information. The Partnership's accompanying historical financial statements have been retrospectively updated to reflect the effects on financial position, cash flows and results of operations attributable to the activities of MTI as if the Partnership owned these assets for the periods presented. See

Note 3 for separate results of MTI for the three months ended March 31, 2018. Net income attributable to MTI for periods prior to the Partnership's acquisition of the assets is not allocated to the limited partners for purposes of calculating net income per limited partner unit. See Note 12.

Divestiture of WTLPG Partnership Interest. On July 31, 2018, the Partnership completed the sale of its 20 percent non-operating interest in West Texas LPG Pipeline L.P. ("WTLPG") to ONEOK, Inc. ("ONEOK"). WTLPG owns an approximate 2,300 mile common-carrier pipeline system that primarily transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. A wholly-owned subsidiary of ONEOK, Inc. is the operator of the assets. The Partnership has concluded the disposition represents a strategic shift and will have a major effect on its financial results going forward. As a result, the Partnership has presented the results of operations and cash flows relating to its equity method investment in WTLPG as discontinued operations for the three months ended March 31, 2018. See Note 4 for more information.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation: Improvements to Non-employee Share-Based Payment Accounting, which will expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The standard is effective for Partnership's financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Partnership adopted this

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2019
(Unaudited)

standard effective January 1, 2019. The result of this adoption did not have a material impact on the Partnership's consolidated and condensed financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. Lessor accounting under the new standard is substantially unchanged and the Partnership believes substantially all of our leases will continue to be classified as operating leases under the new standard. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. The update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those reporting periods, with early adoption permitted. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 842, Leases*, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, Leases, as the date of initial application of transition. The Partnership adopted this ASU on January 1, 2019, electing the transition option provided under ASU 2018-11. Consequently, financial information was not updated and the disclosures required under the new standard are not provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Partnership elected the "package of practical expedients", which permits the Partnership not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The new standard also provides practical expedients for an entity's ongoing accounting. The Partnership elected the short-term lease recognition exemption for all leases that qualify. This means, for those assets that qualify, the Partnership did not recognize Right-of-Use ("ROU") assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. See "Note 9. Leases" for more information.

NOTE 3. ACQUISITIONS

Martin Transport Inc. Stock Purchase Agreement. On January 2, 2019, the Partnership acquired all of the issued and outstanding equity of MTI, a wholly-owned subsidiary of Martin Resource Management Corporation which operates a fleet of tank trucks providing transportation of petroleum products, liquid petroleum gas, chemicals, sulfur and other products, as well as owns 23 terminals located throughout the Gulf Coast and Southeastern regions of the United States for total consideration as follows:

| | |
|---|------------|
| Purchase price ¹ | \$ 135,000 |
| Plus: Working Capital Adjustment | 2,795 |
| Less: Finance lease obligations assumed | (11,682) |
| Cash consideration paid | \$ 126,113 |

¹The stock purchase agreement also includes a \$10,000 earn-out based on certain performance thresholds. The transaction closed on January 2, 2019 and was effective as of January 1, 2019 and was funded with borrowings under the Partnership's revolving credit facility.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2019
(Unaudited)

This acquisition is considered a transfer of net assets between entities under common control. The acquisition of MTI was recorded at the historical carrying value of the assets at the acquisition date, which were as follows:

| | |
|--|----------|
| Accounts receivable, net | \$11,724 |
| Inventories | 1,138 |
| Due from affiliates | 1,042 |
| Other current assets | 897 |
| Property, plant and equipment, net | 25,383 |
| Goodwill | 489 |
| Other noncurrent assets | 362 |
| Current installments of finance lease obligations | (5,409) |
| Accounts payable | (2,564) |
| Due to affiliates | (482) |
| Other accrued liabilities | (2,588) |
| Finance lease obligations, net of current installments | (6,272) |
| Historical carrying value of assets acquired | \$23,720 |

The excess purchase price over the historical carrying value of the assets at the acquisition date was \$102,393 and was recorded as an adjustment to "Partners' capital".

The separate results of operations related to MTI for the three months ended March 31, 2018 which were recast as part of the Partnership's consolidated and condensed statements of operations were as follows:

| | |
|-------------------------------------|--|
| | Three Months Ended March 31, 2018 |
| Transportation revenue | \$29,909 |
| Operating expenses | 25,536 |
| Selling, general and administrative | 1,340 |
| Depreciation and amortization | 780 |
| Total costs and expenses | 27,656 |
| Other operating income, net | 10 |
| Operating income | 2,263 |
| Other income: | |
| Interest expense | (45) |
| Income before income taxes | 2,218 |
| Income taxes | — |
| Net income | \$2,218 |

NOTE 4. DIVESTITURES AND DISCONTINUED OPERATIONS***Discontinued Operations***

Divestiture of WTLPG Partnership Interest. On July 31, 2018, the Partnership completed the sale of its 20 percent non-operating interest in WTLPG to ONEOK. WTLPG owns an approximate 2,300 mile common-carrier pipeline system that primarily transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. A wholly-owned subsidiary of ONEOK, Inc. is the operator of the assets. In consideration for the sale of these assets, the Partnership received cash proceeds of \$193,705, after transaction fees and expenses. The proceeds from the sale were used to reduce outstanding borrowings under the Partnership's revolving credit facility. The Partnership has concluded the disposition represents a strategic shift and will have a major effect on its financial results going forward. As a result, the Partnership has presented the results of operations and cash flows relating to its equity method investment in WTLPG as discontinued operations for the three months ended March 31, 2018.

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

| | Three Months Ended March 31, 2018 |
|---|--|
| Total costs and expenses and other, net, excluding depreciation and amortization ¹ | \$(63) |
| Equity in earnings | 1,595 |
| Income from discontinued operations before income taxes | 1,532 |
| Income tax expense | — |
| Income from discontinued operations, net of income taxes | \$ 1,532 |

¹ These expenses represent direct operating expenses as a result of the Partnership's ownership interest in WTLPG.

Long-Lived Assets Held for Sale

At March 31, 2019 and December 31, 2018, certain terminalling and storage and marine transportation assets met the criteria to be classified as held for sale in accordance with ASC 360-10 and are presented at the lower of the assets' carrying amount or fair value less cost to sell by segment in current assets as follows:

| | March 31, 2019 | December 31, 2018 |
|--------------------------|-------------------------------|------------------------------|
| Terminalling and storage | \$3,552 | \$ 3,552 |
| Transportation | 1,950 | 2,100 |
| Assets held for sale | \$5,502 | \$ 5,652 |

These assets are considered non-core assets to the Partnership's operations and did not qualify for discontinued operations presentation under the guidance of ASC 205-20.

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NOTE 5. REVENUE

The following table disaggregates our revenue by major source:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| <i>Terminalling and storage segment</i> | | |
| Lubricant product sales | \$31,067 | \$36,463 |
| Throughput and storage | 23,104 | 24,047 |
| | \$54,171 | \$60,510 |
| <i>Natural gas services segment</i> | | |
| Natural gas liquids product sales | \$116,474 | \$159,162 |
| Natural gas storage | 10,934 | 15,356 |
| | \$127,408 | \$174,518 |
| <i>Sulfur service segment</i> | | |
| Sulfur product sales | \$9,952 | \$11,837 |
| Fertilizer product sales | 18,782 | 23,063 |
| Sulfur services | 2,859 | 2,787 |
| | \$31,593 | \$37,687 |
| <i>Transportation segment</i> | | |
| Land transportation | \$24,119 | \$22,905 |
| Inland transportation | 12,477 | 9,692 |
| Offshore transportation | 1,199 | 1,762 |
| | \$37,795 | \$34,359 |

Revenue is measured based on a consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties where the Partnership is acting as an agent. The Partnership recognizes revenue when the Partnership satisfies a performance obligation, which typically occurs when the Partnership transfers control over a product to a customer or as the Partnership delivers a service.

The following is a description of the principal activities - separated by reportable segments - from which the Partnership generates revenue.

Terminalling and Storage Segment

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 or rail, revenue is recognized when title is transferred, which is either upon delivering product to the customer or when the product leaves the Partnership's facility, depending on the specific terms of the contract. Delivery of product is invoiced as the transaction occurs and is generally paid within a month.

Natural Gas Services Segment

Natural Gas Liquids ("NGL") distribution revenue is recognized when product is delivered by truck, rail, or pipeline to the Partnership's NGL customers. Revenue is recognized on title transfer of the product to the customer. Delivery of product is invoiced as the transaction occurs and are generally paid within a month. Natural gas storage revenue is recognized when the

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service is provided to the customer. The performance of the service is invoiced as the transaction occurs and is generally paid within a month.

Sulfur Services Segment

Revenue from sulfur product sales is recognized when the customer takes title to the product. Delivery of product is invoiced as the transaction occurs and are generally paid within a month. Revenue from sulfur services is recognized as services are performed during each monthly period. The performance of the service is invoiced as the transaction occurs and is generally paid within a month.

Transportation Segment

Revenue related to land transportation is recognized for line hauls based on a mileage rate. For contracted trips, revenue is recognized upon completion of the particular trip. The performance of the service is invoiced as the transaction occurs and is generally paid within a month.

Revenue related to marine transportation is recognized for time charters based on a per day rate. For contracted trips, revenue is recognized upon completion of the particular trip. The performance of the service is invoiced as the transaction occurs and is generally paid within a month.

The table includes estimated minimum revenue expected to be recognized in the future related to performance obligations that are unsatisfied at the end of the reporting period. The Partnership applies the practical expedient in ASC 606-10-50-14(a) and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
| <i>Terminalling and storage</i> | | | | | | | |
| Throughput and storage | \$37,676 | \$49,355 | \$46,642 | \$42,735 | \$42,854 | \$392,624 | \$611,886 |
| <i>Natural gas services</i> | | | | | | | |
| Natural gas storage | 28,593 | 32,119 | 26,276 | 24,615 | 10,107 | — | 121,710 |
| <i>Sulfur services</i> | | | | | | | |
| Sulfur product sales | 12,811 | 4,898 | 1,181 | 295 | — | — | 19,185 |
| <i>Transportation</i> | | | | | | | |
| Offshore transportation | 4,675 | — | — | — | — | — | 4,675 |
| Total | \$83,755 | \$86,372 | \$74,099 | \$67,645 | \$52,961 | \$392,624 | \$757,456 |

NOTE 6. INVENTORIES

Components of inventories at March 31, 2019 and December 31, 2018 were as follows:

| | March 31, 2019 | December 31, 2018 |
|---------------------|-------------------------------|------------------------------|
| Natural gas liquids | \$14,750 | \$32,388 |

| | | |
|------------|----------|-----------|
| Sulfur | 14,648 | 12,818 |
| Fertilizer | 13,425 | 14,208 |
| Lubricants | 23,752 | 22,887 |
| Other | 3,966 | 3,906 |
| | \$70,541 | \$ 86,207 |

NOTE 7. INVESTMENT IN WEST TEXAS LPG PIPELINE L.P.

As discussed in Note 4, on July 31, 2018, the Partnership completed the sale of its 20% non-operating interest in WTLPG. Prior to the sale, the Partnership owned a 19.8% limited partnership and 0.2% general partnership interest in West Texas LPG Pipeline L.P. ("WTLPG"). A wholly-owned subsidiary of ONEOK, Inc. is the operator of the assets. WTLPG owns an approximate 2,300 mile common-carrier pipeline system that primarily transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. The Partnership recognized its 20% interest in WTLPG as "Investment in WTLPG" on its Consolidated and Condensed Balance Sheets. The Partnership accounted for its ownership interest in WTLPG under the equity method of accounting. As discussed in Note 4, the Partnership sold its 20% non-operating partnership interest to ONEOK on July 31, 2018.

Selected financial information for WTLPG during the period of ownership is as follows:

| | | |
|-------------|---------------------|---------------|
| | Three Months | |
| | Ended March | |
| | 31, | |
| 2018 | Revenues | Net |
| | | Income |
| WTLPG | \$23,041 | \$ 7,706 |

NOTE 8. LONG-TERM DEBT

At March 31, 2019 and December 31, 2018, long-term debt consisted of the following:

| | March 31, | December 31, |
|---|------------------|---------------------|
| | 2019 | 2018 |
| \$664,444 Revolving credit facility at variable interest rate (5.49% ¹ weighted average at March 31, 2019), due March 2020 secured by substantially all of the Partnership's assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in the Partnership's operating subsidiaries and equity method investees, net of unamortized debt issuance costs of \$2,890 and \$3,537, respectively ^{2,4} | \$401,110 | \$ 283,463 |
| \$400,000 Senior notes, 7.25% interest, net of unamortized debt issuance costs of \$1,283 and \$1,454, respectively, including unamortized premium of \$573 and \$650, respectively, issued \$250,000 February 2013 and \$150,000 April 2014, \$26,200 repurchased during 2015, due February 2021, unsecured ^{2,3} | 373,090 | 372,996 |
| Total | 774,200 | 656,459 |
| Less: current portion | (401,110) | — |
| Total long-term debt, net of current portion | \$373,090 | \$ 656,459 |

¹ Interest rate fluctuates based on the LIBOR rate plus an applicable margin set on the date of each advance. The margin above LIBOR is set every three months. Indebtedness under the credit facility bears interest at LIBOR plus an applicable margin or the base prime rate plus an applicable margin. All amounts outstanding at March 31, 2019 and December 31, 2018 were at LIBOR plus an applicable margin. The applicable margin for revolving loans that are LIBOR loans ranges from 2.00% to 3.00% and the applicable margin for revolving loans that are base prime rate loans ranges from 1.00% to 2.00%. The applicable margin for existing LIBOR borrowings at March 31, 2019 is 3.00%. The

credit facility contains various covenants which limit the Partnership's ability to make certain investments and acquisitions; enter into certain agreements; incur indebtedness; sell assets; and make certain amendments to the Partnership's omnibus agreement with Martin Resource Management Corporation (the "Omnibus Agreement"). The Partnership is permitted to make quarterly distributions so long as no event of default exists.

² The Partnership is in compliance with all debt covenants as of March 31, 2019 and December 31, 2018, respectively.

³ The 2021 indenture restricts the Partnership's ability to sell assets; pay distributions or repurchase units or redeem or repurchase subordinated debt; make investments; incur or guarantee additional indebtedness or issue preferred units; and consolidate, merge or transfer all or substantially all of its assets.

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⁴ On April 16, 2019, the Partnership amended its revolving credit facility to, among other things, reduce commitments from \$664,444 to \$500,000 and to adjust the permitted Leverage Ratio (as defined in the credit agreement) to 5.85 times for the fiscal quarters ended March 31, 2019 and June 30, 2019.

As of March 31, 2019, the Partnership's revolving credit facility was due within twelve months and has therefore been presented as a current liability on the Partnership's March 31, 2019 consolidated and condensed balance sheets. The Partnership intends to extend the maturity of the credit facility and had previously determined to delay the extension until after finalization of the marketing and sales process related to the sale of its natural gas storage assets, which if consummated would allow the impact of the receipt of the proceeds to give effect to the amended commitment amount and the extended maturity date.

The Partnership paid cash interest, net of capitalized interest, in the amount of \$19,363 and \$18,878 for the three months ended March 31, 2019 and 2018, respectively. Capitalized interest was \$2 and \$161 for the three months ended March 31, 2019 and 2018, respectively.

NOTE 9. LEASES

In February 2016, the FASB issued ASU 2016-02, *Leases*, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to ASC 842*, which includes an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, *Leases*, as the date of initial application of transition. The Partnership elected the effective date transition method in ASC 842 and adopted the standard beginning January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Partnership elected the "package of practical expedients", which permits the Partnership not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The Partnership also elected the short-term lease recognition exemption, meaning the Partnership does not recognize ROU assets or lease liabilities for all leases that qualify. Lease agreements with lease and non-lease components are combined as a single lease component. Variable lease payments are generally expensed as incurred and include certain index-based changes in rent, certain non-lease components, such as maintenance and other services provided by the lessor, and other charges included in the lease.

The adoption of this standard resulted in the recording of approximately \$19,047 of additional assets and liabilities on its Consolidated Balance Sheet as of January 1, 2019. The Partnership also acquired certain operating leases in the MTI transaction that resulted in additional assets and liabilities being recorded at the transaction date in accordance with ASU 2016-02 in the amount of \$6,505.

The Partnership has numerous operating leases primarily for terminal facilities and transportation and other equipment. The leases generally provide that all expenses related to the equipment are to be paid by the lessee.

Our leases have remaining lease terms of 1 year to 18 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year. The Partnership includes extension periods and excludes termination periods from its lease term if, at commencement, it is reasonably likely

that the Partnership will exercise the option.

The Partnership's future minimum lease obligations as of December 31, 2018 consisted of the following:

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| | Operating Leases |
|------------|-----------------------------|
| Year 1 | \$ 13,126 |
| Year 2 | 7,194 |
| Year 3 | 4,262 |
| Year 4 | 2,642 |
| Year 5 | 1,749 |
| Thereafter | 7,823 |
| | \$ 36,796 |

The components of lease expense for the three months ended March 31, 2019 were as follows:

| | March 31, 2019 |
|-------------------------------------|-------------------------------|
| Operating lease cost | \$5,290 |
| Finance lease cost: | |
| Amortization of right-of-use assets | \$622 |
| Interest on lease liabilities | 183 |
| Total finance lease cost | \$805 |

Supplemental cash flow information for the three months ended March 31, 2019 related to leases was as follows:

| | March 31, 2019 |
|---|-------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$5,310 |
| Operating cash flows from finance leases | 183 |
| Financing cash flows from finance leases | 1,256 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | \$5,245 |
| Finance leases | — |