American Midstream Partners, LP
Form 10-Q
May 11, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended
March 31, 2015
or

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

For the transition period from to
Commission File Number: 001-35257

AMERICAN MIDSTREAM PARTNERS, LP
(Exact name of registrant as specified in its charter)

Delaware	27-0855785
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1400 16th Street, Suite 310 Denver, CO	80202
(Address of principal executive offices)	(Zip code)

(720) 457-6060
(Registrant's telephone number, including area code)

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. ý Yes ¨ No

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

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

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

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

There were 22,757,477 common units, 7,052,207 Series A Units and 1,277,772 Series B Units of American Midstream Partners, LP outstanding as of May 8, 2015. Our common units trade on the New York Stock Exchange under the ticker symbol "AMID."

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Glossary of Terms

As generally used in the energy industry and in this Quarterly Report on Form 10-Q (the “Quarterly Report”), the identified terms have the following meanings:

Bbl	Barrels: 42 U.S. gallons measured at 60 degrees Fahrenheit.
Bcf	Billion cubic feet.
Btu	British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Condensate	Liquid hydrocarbons present in casinghead gas that condense within the gathering system and are removed prior to delivery to the gas plant. This product is generally sold on terms more closely tied to crude oil pricing.
/d	Per day.
FERC	Federal Energy Regulatory Commission.
Fractionation	Process by which natural gas liquids are separated into individual components.
GAAP	Accounting principles generally accepted in the United States of America.
Gal	Gallons.
MMBtu	Million British thermal units.
Mcf	Thousand cubic feet.
MMcf	Million cubic feet.
Mgal	One thousand gallons.
NGL or NGLs	Natural gas liquid(s): The combination of ethane, propane, normal butane, isobutane and natural gasoline that, when removed from natural gas, become liquid under various levels of higher pressure and lower temperature.
Throughput	The volume of natural gas transported or passing through a pipeline, plant, terminal or other facility during a particular period.

As used in this Quarterly Report, unless the context otherwise requires, “we,” “us,” “our,” the “Partnership” and similar terms refer to American Midstream Partners, LP, together with its consolidated subsidiaries.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

	March 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$—	$499
Accounts receivable	8,341	4,924
Unbilled revenue	21,104	24,619
Risk management assets	455	688
Other current assets	8,181	15,554
Current deferred tax assets	5,382	3,086
Total current assets	43,463	49,370
Property, plant and equipment, net	606,751	582,182
Goodwill	142,053	142,236
Intangible assets, net	104,692	106,306
Investment in unconsolidated affiliates	21,419	22,252
Other assets, net	14,267	14,298
Total assets	$932,645	$916,644
Liabilities and Partners’ Capital		
Current liabilities		
Accounts payable	$18,830	$20,326
Accrued gas purchases	11,278	14,326
Accrued expenses and other current liabilities	21,284	25,800
Current portion of long-term debt	1,833	2,908
Risk management liabilities	168	215
Total current liabilities	53,393	63,575
Asset retirement obligations	34,762	34,645
Other liabilities	212	126
Long-term debt	386,850	372,950
Deferred tax liabilities	10,652	8,199
Total liabilities	485,869	479,495
Commitments and contingencies (See Note 16)		
Convertible preferred units		
Series A convertible preferred units (7,052 thousand and 5,745 thousand units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively)	131,376	107,965
Equity and partners' capital		
General Partner Interests (392 thousand units issued and outstanding as of March 31, 2015 and December 31, 2014)	(4,528)	(2,450)
Limited Partner Interests (22,754 thousand and 22,670 thousand units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively)	282,603	294,695
Series B convertible units (1,278 thousand and 1,255 units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively)	32,640	32,220
Accumulated other comprehensive income (loss)	(9)	2
Total partners’ capital	310,706	324,467

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Noncontrolling interests	4,694	4,717
Total equity and partners' capital	315,400	329,184
Total liabilities, equity and partners' capital	$932,645	$916,644

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except for per unit amounts)

	Three months ended March 31, 2015	2014
Revenue	$64,462	$80,368
Gain (loss) on commodity derivatives, net	147	(130)
Total revenue	64,609	80,238
Operating expenses:		
Purchases of natural gas, NGLs and condensate	28,978	55,221
Direct operating expenses	13,867	8,961
Selling, general and administrative expenses	6,935	5,593
Equity compensation expense	1,698	360
Depreciation, amortization and accretion expense	9,689	7,632
Total operating expenses	61,167	77,767
Gain (loss) on sale of assets, net	(8)	(21)
Operating income (loss)	3,434	2,450
Other income (expense):		
Interest expense	(2,610)	(1,903)
Earnings in unconsolidated affiliates	167	—
Net income (loss) before income tax (expense) benefit	991	547
Income tax (expense) benefit	(156)	11
Net income (loss) from continuing operations	835	558
Income (loss) from discontinued operations, net of tax	5	(50)
Net income (loss)	840	508
Net income (loss) attributable to noncontrolling interests	14	108
Net income (loss) attributable to the Partnership	$826	$400
General Partner's Interest in net income (loss)	$10	$7
Limited Partners' Interest in net income (loss)	$816	$393
Distribution declared per common unit (a)	$0.4725	$0.4525
Limited partners' net income (loss) per common unit (See Note 4 and Note 13):		
Basic and diluted:		
Income (loss) from continuing operations	$(0.19)	$(0.32)
Income (loss) from discontinued operations	—	—
Net income (loss)	$(0.19)	$(0.32)
Weighted average number of common units outstanding:		
Basic and diluted	22,703	9,846

(a) Declared and paid during the three months ended March 31, 2015 and 2014 related to prior quarter earnings.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in thousands)

	Three months ended March 31,	
	2015	2014
Net income (loss)	$840	$508
Unrealized gain (loss) on postretirement benefit plan assets and liabilities	(11)	36
Comprehensive income (loss)	829	544
Less: Comprehensive income (loss) attributable to noncontrolling interests	14	108
Comprehensive income (loss) attributable to Partnership	$815	$436

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Changes in Partners' Capital
and Noncontrolling Interest
(Unaudited, in thousands)

	General Partner Interest	Limited Partner Interest	Series B Convertible Units	Accumulated Other Comprehensive Income	Total Partners' Capital	Noncontrolling Interest
Balances at December 31, 2013	$2,696	$71,039	$—	$104	$73,839	$4,628
Net income (loss)	7	393	—	—	400	108
Issuance of common units to public, net of offering costs	—	86,926	—	—	86,926	—
Issuance of Series B units	—	—	30,000	—	30,000	—
Unitholder contributions	1,276	—	—	—	1,276	—
Unitholder distributions	(524)	(8,037)	—	—	(8,561)	—
Issuance and exercise of warrant	(7,164)	7,164	—	—	—	—
Net distributions to noncontrolling interests	—	—	—	—	—	(98)
Acquisitions of noncontrolling interests	—	21	—	—	21	(29)
LTIP vesting	(366)	494	—	—	128	—
Tax netting repurchase	—	(90)	—	—	(90)	—
Equity compensation expense	328	—	—	—	328	—
Other comprehensive loss	—	—	—	36	36	—
Balances at March 31, 2014	$(3,747)	$157,910	$30,000	$140	$184,303	$4,609
Balances at December 31, 2014	$(2,450)	$294,695	$32,220	$2	$324,467	$4,717
Net income (loss)	10	816	—	—	826	14
Issuance of Series B units	—	—	420	—	420	—
Unitholder contributions	23	—	—	—	23	—
Unitholder distributions	(1,495)	(14,496)	—	—	(15,991)	—
Net distributions to noncontrolling interests	—	—	—	—	—	(37)
LTIP vesting	(2,117)	2,313	—	—	196	—
LTIP tax netting unit repurchase	—	(725)	—	—	(725)	—
Equity based compensation	1,501	—	—	—	1,501	—
Other comprehensive income	—	—	—	(11)	(11)	—
Balances at March 31, 2015	$(4,528)	$282,603	$32,640	$(9)	$310,706	$4,694

The accompanying notes are an integral part of these condensed consolidated financial statements.

American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Three months ended March 31, 2015	2014
Cash flows from operating activities		
Net income (loss)	$840	$508
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion expense	9,689	7,632
Amortization of deferred financing costs	338	428
Amortization of weather derivative premium	241	284
Unrealized (gain) loss on commodity derivatives, net	(55)	39
Non-cash compensation	1,720	360
Postretirement expense (benefit)	8	12
(Gain) loss on sale of assets, net	(8)	—
Deferred tax expense (benefit)	158	(26)
Changes in operating assets and liabilities, net of effects of assets acquired and liabilities assumed:		
Accounts receivable	(3,414)	(1,041)
Unbilled revenue	3,515	(3,222)
Other current assets	917	(2,374)
Other assets, net	49	(15)
Accounts payable	(151)	(789)
Accrued gas purchases	(3,048)	1,416
Accrued expenses and other current liabilities	(1,702)	263
Asset retirement obligations	(83)	—
Other liabilities	88	79
Net cash provided by operating activities	9,102	3,554
Cash flows from investing activities		
Cost of acquisitions, net of cash acquired	183	(110,909)
Additions to property, plant and equipment	(38,922)	(3,928)
Proceeds from disposals of property, plant and equipment	2,800	6,135
Proceeds from equity method investment, return of capital	833	—
Restricted cash	6,450	—
Net cash used in investing activities	(28,656)	(108,702)
Cash flows from financing activities		
Payment of offering costs	(148)	86,926
Unitholder contributions	—	1,276
Unitholder distributions	(12,159)	(5,379)
Issuance of Series A Units	20,000	—
Issuance of Series B Units	—	30,000
Acquisition of noncontrolling interests	—	(8)
Net distributions to noncontrolling interests	(37)	(98)
LTIP tax netting unit repurchase	(725)	(90)
Payment of deferred financing costs	(163)	(144)
Payments on other debt	(1,613)	(791)
Borrowings on other debt	—	170
Payments on long-term debt	(54,200)	(49,771)

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Borrowings on long-term debt	68,100	44,686
Net cash provided by financing activities	19,055	106,777
Net increase (decrease) in cash and cash equivalents	(499)	1,629
Cash and cash equivalents		
Beginning of period	499	393
End of period	$—	$2,022
Supplemental cash flow information		
Interest payments, net	$2,290	$1,781
Supplemental non-cash information		
Increase (decrease) in accrued property, plant and equipment	$(3,678)	$(1,474)
Accrued paid in-kind unitholder distributions for Series A Units	3,411	1,844
In-kind unitholder distributions for Series B Units	420	—

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)
1. Organization and Basis of Presentation

General

American Midstream Partners, LP (the "Partnership", "we", "us", or "our"), was formed on August 20, 2009 as a Delaware limited partnership for the purpose of operating, developing and acquiring a diversified portfolio of midstream energy assets. The Partnership's general partner, American Midstream GP, LLC (the "General Partner"), is 95% owned by High Point Infrastructure Partners, LLC ("HPIP") and 5% owned by AIM Midstream Holdings, LLC. We hold our assets in a series of wholly owned limited liability companies, two limited partnerships and a corporation. Our capital accounts consist of notional general partner units and limited partner interests.

Nature of Business

We are engaged in the business of gathering, treating, processing, and transporting natural gas, fractionating NGLs and storing specialty chemical products through our ownership and operation of twelve gathering systems, five processing facilities, three fractionation facilities, four marine terminal sites, three interstate pipelines and five intrastate pipelines. We also own a 66.7% non-operating interest in Main Pass Oil Gathering, LP ("MPOG"), a crude oil gathering and processing system, a 46.0% non-operated interest in Mesquite, an off-spec condensate fractionation project, as well as a 50% undivided, non-operating interest in the Burns Point Plant, a natural gas processing plant. Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Maryland, Mississippi, North Dakota, Tennessee and Texas, provide critical infrastructure that links producer of natural gas, NGLs, condensate and specialty chemicals to numerous intermediate and end-use markets. We currently operate more than 3,000 miles of pipelines that gather and transport over 1 Bcf/d of natural gas and operate approximately 1.7 million barrels of storage capacity across four marine terminal sites.

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end balance sheet data was derived from consolidated audited financial statements but does not include disclosures required by GAAP for annual periods. We have made reclassifications to amounts reported in prior period condensed consolidated financial statements to conform to our current year presentation. These reclassifications did not have an impact on net income (loss) for the period previously reported. The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of financial position and results of operations for the respective interim periods.

The financial results for the three months ended March 31, 2014, have been reclassified to present an asset group previously presented as held for sale as held and used.

Our financial results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014 (“Annual Report”) filed with the Securities and Exchange Commission on March 10, 2015.

Consolidation Policy

The accompanying condensed consolidated financial statements include accounts of American Midstream Partners, LP, and its controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the accompanying condensed consolidated financial statements. We hold a 50% undivided interest in the Burns Point gas processing facility in which we are responsible for our proportionate share of the costs and expenses of the facility. Our condensed consolidated financial statements reflect our proportionate share of the revenues, expenses, assets and liabilities of this undivided interest. As of March 31, 2015, we also hold a 92.2% undivided interest in the Chatom Processing and Fractionation facility (the "Chatom System"). Our condensed consolidated financial statements reflect the accounts of the Chatom System and the interests in the Chatom System held by non-affiliated working interest owners are reflected as noncontrolling interests in the Partnership's condensed consolidated financial statements.

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The Partnership accounts for its 66.7% non-operated interest in MPOG and its 46.0% non-operated interest in Mesquite under the equity method.

Use of Estimates

When preparing condensed consolidated financial statements in conformity with GAAP, management must make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates and assumptions are based on information available at the time such estimates and assumptions are made. Adjustments made with respect to the use of these estimates and assumptions often relate to information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. Estimates and assumptions are used in, among other things i) estimating unbilled revenues, product purchases and operating and general and administrative costs, ii) developing fair value estimates, including assumptions for future cash flows and discount rates, iii) analyzing long-lived assets, goodwill and intangible assets for possible impairment, iv) estimating the useful lives of assets and v) determining amounts to accrue for contingencies, guarantees and indemnifications. Actual results, therefore, could differ materially from estimated amounts.

2. Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance amends the requirements for reporting discontinued operations and requires expanded disclosures for individually significant components of an entity that either have been disposed of or are classified as held for sale, but do not qualify for discontinued operations reporting. Only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. ASU 2014-08 is effective for annual periods, and interim periods within those years, beginning on or after December 15, 2014 and is applied prospectively. Early adoption is permitted, but only for disposals or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. The update was adopted by the Partnership as of April 1, 2014 and did not have a material impact on its condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. The standard requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods therein. The FASB voted to propose a deferral of the effective date by one year, but to permit entities to adopt the standard as of the original effective date. The Partnership is currently evaluating the method of adoption and impact this standard will have on its condensed consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. This guidance amends the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Partnership is currently evaluating the potential impact this standard will have on its condensed consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, including interim periods therein, and is applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. At March 31, 2015, the Partnership had $10.5 million of deferred financing costs included in Other assets, net which would be reclassified as a reduction of long-term debt under the updated guidance.

In April 2015, the FASB issued ASU No. 2015-06, Earnings Per Share (Topic 260). This guidance clarifies the process for updating historical earnings per unit disclosures when a drop-down transaction occurs between entities under common control. Pursuant to the amendment, the previously reported earnings per unit measure presented in the historical financial statements would not change as a result of the dropdown transaction. ASU 2015-06 is effective for annual reporting periods beginning after December 15, 2015, and for interim periods within those fiscal years. Early adoption is permitted. The Partnership has evaluated this guidance and determined it is consistent with our policy and historical presentation of earnings per unit.

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3. Acquisitions and Divestitures

Costar Acquisition

On October 14, 2014, the Partnership acquired 100% of the membership interests of Costar Midstream, L.L.C. ("Costar") from Energy Spectrum Partners VI LP and Costar Midstream Energy, LLC, in exchange for $265.2 million in cash and 6.9 million of the Partnership's common units representing Limited Partner interests, or common units (the "Costar Acquisition"). Costar is an onshore gathering and processing company with its primary gathering, processing, fractionation, and off-spec condensate treating and stabilization assets in East Texas and the Permian basin, with a significant crude oil gathering system project under development in the Bakken oil play.

The Costar Acquisition was accounted for using the acquisition method of accounting and as a result, the aggregate purchase price was allocated to the assets acquired, liabilities assumed and a noncontrolling interest in a Costar subsidiary based on their respective fair values as of the acquisition date. The excess of the aggregate purchase price over the fair values of the assets acquired, liabilities assumed and the noncontrolling interest was classified as goodwill, which is attributable to future prospective customer agreements expected to be obtained as a result of the acquisition. Costar has been included in the Partnership’s Gathering and Processing Segment from the acquisition date.

The following table summarizes the fair value of consideration transferred to acquire Costar and the allocation of that amount to the assets acquired, liabilities assumed and the noncontrolling interest based upon their respective fair values as of the acquisition date (in thousands).

Fair value of consideration transferred:	
Cash	$265,201
Limited partner common units	147,296
Total fair value of consideration	$412,497
Fair Value of assets acquired, liabilities assumed and noncontrolling interest:	
Working capital	$