

MARTIN MIDSTREAM PARTNERS LP

Form 10-Q

August 05, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

**Commission File Number
000-50056**

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

Delaware
(State or other jurisdiction of
incorporation or organization)

05-0527861
(IRS Employer
Identification No.)

**4200 Stone Road
Kilgore, Texas 75662**

(Address of principal executive offices, zip code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

The number of the registrant's Common Units outstanding at August 5, 2009 was 13,688,152. The number of the registrant's subordinated units outstanding at August 5, 2009 was 850,674.

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

Assets	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Cash	\$ 9,573	\$ 7,983
Accounts and other receivables, less allowance for doubtful accounts of \$754 and \$481	53,425	68,117
Product exchange receivables	7,603	6,924
Inventories	34,563	42,461
Due from affiliates	7,003	555
Fair value of derivatives	2,470	3,623
Other current assets	834	1,079
Total current assets	115,471	130,742
Property, plant, and equipment, at cost	532,206	537,381
Accumulated depreciation	(138,783)	(125,256)
Property, plant and equipment, net	393,423	412,125
Goodwill	37,268	37,405
Investment in unconsolidated entities	80,613	79,843
Fair value of derivatives	487	1,469
Other assets, net	6,219	7,332
	\$ 633,481	\$ 668,916
Liabilities and Capital		
Trade and other accounts payable	\$ 58,483	\$ 87,382
Product exchange payables	17,388	10,924
Due to affiliates	11,765	13,420
Income taxes payable	414	414
Fair value of derivatives	8,156	6,478
Other accrued liabilities	3,108	6,077
Total current liabilities	99,314	124,695
Long-term debt	297,200	295,000

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Deferred income taxes	8,324	8,538
Fair value of derivatives	1,961	4,302
Other long-term obligations	1,471	1,667
Total liabilities	408,270	434,202
Partners' capital	228,744	239,649
Accumulated other comprehensive loss	(3,533)	(4,935)
Total partners' capital	225,211	234,714
Commitments and contingencies	\$ 633,481	\$ 668,916

See accompanying notes to consolidated and condensed financial statements.

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

(Dollars in thousands, except per unit amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Revenues:				
Terminalling and storage	\$ 9,982	\$ 9,900	\$ 19,581	\$ 17,820
Marine transportation	15,101	19,309	31,437	35,712
Product sales:				
Natural gas services	74,822	182,025	165,688	389,117
Sulfur services	19,343	86,027	45,929	156,252
Terminalling and storage	9,020	10,882	22,539	22,258
	103,185	278,934	234,156	567,627
Total revenues	128,268	308,143	285,174	621,159
Costs and expenses:				
Cost of products sold:				
Natural gas services	69,668	180,324	152,335	383,174
Sulfur services	8,591	75,964	27,026	132,304
Terminalling and storage	7,918	10,270	20,023	20,191
	86,177	266,558	199,384	535,669
Expenses:				
Operating expenses	23,519	26,195	47,407	50,412
Selling, general and administrative	4,087	3,467	8,266	6,946
Depreciation and amortization	8,511	7,614	16,916	14,954
Total costs and expenses	122,294	303,834	271,973	607,981
Other operating income (loss)	5,073	(14)	5,073	126
Operating income	11,047	4,295	18,274	13,304
Other income (expense):				
Equity in earnings of unconsolidated entities	1,028	4,372	3,088	7,882
Interest expense	(4,183)	(3,895)	(8,852)	(8,638)
Other, net	49	67	71	247
Total other income (expense)	(3,106)	544	(5,693)	(509)
Net income before taxes	7,941	4,839	12,581	12,795
Income tax benefit (expense)	(16)	(522)	214	(461)

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Net income	\$	7,925	\$	4,317	\$	12,795	\$	12,334
General partner's interest in net income	\$	868	\$	665	\$	1,675	\$	1,316
Limited partners' interest in net income	\$	7,057	\$	3,652	\$	11,120	\$	11,018
Net income per limited partner unit - basic and diluted	\$	0.49	\$	0.25	\$	0.76	\$	0.76
Weighted average limited partner units - basic		14,532,826		14,532,826		14,532,826		14,532,826
Weighted average limited partner units diluted		14,537,737		14,535,779		14,537,119		14,535,564
See accompanying notes to consolidated and condensed financial statements.								

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

	Partners Capital				Partner Amount	Accumulated Other Comprehensive Income (Loss) Amount	Total
	Common Units	Amount	Subordinated Units	Amount			
Balances							
January 1, 2008	12,837,480	\$ 244,520	1,701,346	\$ (6,022)	\$ 4,112	\$ (6,762)	\$ 235,848
Net income		9,958		1,060	1,316		12,334
Cash distributions		(18,229)		(2,416)	(1,535)		(22,180)
Unit-based compensation		34					34
Adjustment in fair value of derivatives						(9,539)	(9,539)
Balances June 30, 2008	12,837,480	\$ 236,283	1,701,346	\$ (7,378)	\$ 3,893	\$ (16,301)	\$ 216,497
Balances							(4,935)
January 1, 2009	13,688,152	\$ 239,333	850,674	\$ (3,688)		\$ 4,004	\$ 234,714
Net income		10,470		650	1,675		12,795
Cash distributions		(20,532)		(1,276)	(1,923)		(23,731)
Unit-based compensation		31					31
Adjustment in fair value of derivatives						1,402	1,402
Balances June 30, 2009	13,688,152	\$ 229,302	850,674	\$ (4,314)	\$ 3,756	\$ (3,533)	\$ 225,211

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income	\$ 7,925	\$ 4,317	\$ 12,795	\$ 12,334
Changes in fair values of commodity cash flow hedges	(431)	(8,700)	(12)	(8,487)
Commodity cash flow hedging gains (losses) reclassified to earnings	(648)	41	(1,345)	(624)
Changes in fair value of interest rate cash flow hedges	(317)	4,112	(940)	(428)
Interest rate cash flow hedging gains reclassified to earnings	1,926		3,699	
Comprehensive income	\$ 8,455	\$ (230)	\$ 14,197	\$ 2,795

See accompanying notes to consolidated and condensed financial statements.

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

	Six Months Ended	
	June 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 12,795	\$ 12,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,916	14,954
Amortization of deferred debt issuance costs	562	559
Deferred taxes	(214)	(155)
Gain on sale of property, plant and equipment	(5,073)	(126)
Equity in earnings of unconsolidated entities	(3,088)	(7,882)
Distributions from unconsolidated entities	650	
Distributions in-kind from equity investments	2,316	5,621
Non-cash mark-to-market on derivatives	2,874	5,195
Other	31	34
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:		
Accounts and other receivables	14,661	(22,959)
Product exchange receivables	(679)	(31,236)
Inventories	7,898	(50,034)
Due from affiliates	(2,392)	(6,011)
Other current assets	245	(6,509)
Trade and other accounts payable	(29,099)	64,546
Product exchange payables	6,464	46,302
Due to affiliates	7,789	2,595
Income taxes payable		69
Other accrued liabilities	(2,969)	(34)
Change in other non-current assets and liabilities	(100)	(224)
Net cash provided by operating activities	29,587	27,039
Cash flows from investing activities:		
Payments for property, plant and equipment	(25,428)	(52,756)
Acquisitions, net of cash acquired		(5,983)
Proceeds from sale of property, plant and equipment	19,610	404
Return of investments from unconsolidated entities	380	600
Distributions from (contributions to) unconsolidated entities for operations	(1,028)	75
Net cash used in investing activities	(6,466)	(57,660)
Cash flows from financing activities:		

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Payments of long-term debt	(56,900)	(100,791)
Proceeds from long-term debt	59,100	160,770
Payments of debt issuance costs		(18)
Cash distributions paid	(23,731)	(22,180)
Net cash provided by (used in) financing activities	(21,531)	37,781
Net increase in cash	1,590	7,160
Cash at beginning of period	7,983	4,113
Cash at end of period	\$ 9,573	\$ 11,273

See accompanying notes to consolidated and condensed financial statements.

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
June 30, 2009
(Unaudited)

(1) General

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

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 for interim financial reporting. Accordingly, these financial statements have been condensed and do not include all of the information and footnotes required by generally accepted accounting principles for annual audited financial statements of the type contained in the Partnership's annual reports on Form 10-K. In the opinion of the management of the Partnership's general partner, all adjustments and elimination of significant intercompany balances necessary for a fair presentation of the Partnership's results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for such interim periods are not necessarily indicative of the results of operations for the full year. These financial statements should be read in conjunction with the Partnership's audited consolidated financial statements and notes thereto included in the Partnership's annual report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission (the SEC) on March 4, 2009.

(a) Use of Estimates

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

(b) Unit Grants

The Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan in May 2008 from treasury units 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.

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

The Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan in January 2006. 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 transactions under *Emerging Issues Task Force 96-18 Accounting for Equity Instruments That are Issued to other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. The cost resulting from the share-based payment transactions was \$12 and \$17 for the three months ended June 30, 2009 and 2008, respectively, and \$31 and \$34 for the six months ended June 30, 2009 and 2008, respectively. The Partnership's general partner contributed cash of \$2 in January 2006 and \$3 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. The Partnership's general partner did not make a contribution attributable to the restricted units issued to its three independent, non-employee directors in May 2008, as such units were purchased in the open market by the Partnership for \$93.

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(Dollars in thousands, except where otherwise indicated)
June 30, 2009
(Unaudited)

(c) Incentive Distribution Rights

The Partnership's general partner, Martin Midstream GP LLC, holds a 2% general partner interest and certain incentive distribution rights (IDRs) in the Partnership. IDRs are a separate class of non-voting limited partner interest that may be transferred or sold by the general partner under the terms of the partnership agreement, and represent the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution and any cumulative arrearages on common units once certain target distribution levels have been achieved. The Partnership is required to distribute all of its available cash from operat