MARTIN MIDSTREAM PARTNERS LP
Form 10-Q
August 05, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

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 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 x No o

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

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

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

Yes o No x

The number of the registrant’s Common Units outstanding at August 5, 2013, was 26,624,276.

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

	June 30, 2013	December 31, 2012
	(Unaudited)	(Audited)
Assets		
Cash	$17	$5,162
Accounts and other receivables, less allowance for doubtful accounts of $2,856 and $2,805, respectively	123,994	190,652
Product exchange receivables	1,722	3,416
Inventories	93,313	95,987
Due from affiliates	31,000	13,343
Other current assets	6,313	2,777
Assets held for sale	750	3,578
Total current assets	257,109	314,915
Property, plant and equipment, at cost	849,238	767,344
Accumulated depreciation	(278,706)	(256,963)
Property, plant and equipment, net	570,532	510,381
Goodwill	19,616	19,616
Investment in unconsolidated entities	183,229	154,309
Debt issuance costs, net	17,180	10,244
Other assets, net	8,432	3,531
	$1,056,098	$1,012,996
Liabilities and Partners' Capital		
Current installments of long-term debt and capital lease obligations	$3,185	$3,206
Trade and other accounts payable	110,788	140,045
Product exchange payables	10,976	12,187
Due to affiliates	3,405	3,316
Income taxes payable	1,614	10,239
Accrued interest payable	11,071	4,492
Other accrued liabilities	6,112	4,997
Total current liabilities	147,151	178,482
Long-term debt and capital leases, less current installments	565,006	474,992
Other long-term obligations	2,050	1,560
Total liabilities	714,207	655,034
Partners' capital	341,891	357,962
Commitments and contingencies		
	$1,056,098	$1,012,996

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012[1]	2013	2012[1]
Revenues:				
Terminalling and storage *	$27,420	$21,046	$56,311	$41,232
Marine transportation *	25,497	20,714	50,477	41,576
Sulfur services	3,001	2,925	6,002	5,851
Product sales: *				
Natural gas services	187,200	164,817	446,309	336,928
Sulfur services	57,895	64,168	125,279	135,794
Terminalling and storage	57,175	60,176	107,496	120,791
	302,270	289,161	679,084	593,513
Total revenues	358,188	333,846	791,874	682,172
Costs and expenses:				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services *	181,523	163,043	430,301	330,242
Sulfur services *	44,786	47,350	97,583	102,310
Terminalling and storage *	50,273	54,464	94,088	108,110
	276,582	264,857	621,972	540,662
Expenses:				
Operating expenses *	43,035	34,443	86,395	71,454
Selling, general and administrative *	6,383	5,639	13,413	11,410
Depreciation and amortization	12,353	10,070	24,246	20,023
Total costs and expenses	338,353	315,009	746,026	643,549
Other operating income	424	378	796	373
Operating income	20,259	19,215	46,644	38,996
Other income (expense):				
Equity in earnings (loss) of unconsolidated entities	73	799	(301)	1,032
Interest expense	(10,940)	(8,839)	(19,998)	(16,495)
Debt prepayment premium	—	(2,219)	—	(2,470)
Other, net	(14)	256	(23)	548
Total other expense	(10,881)	(10,003)	(20,322)	(17,385)
Net income before taxes	9,378	9,212	26,322	21,611
Income tax expense	(300)	(1,168)	(607)	(2,825)
Income from continuing operations	9,078	8,044	25,715	18,786
Income from discontinued operations, net of income taxes	—	1,984	—	3,709
Net income	9,078	10,028	25,715	22,495
Less General Partner's interest in net income	(181)	(1,544)	(514)	(3,155)
Less pre-acquisition income allocated to Parent	—	(2,836)	—	(4,774)

Less income allocable to unvested restricted units	(23)	—	(66)	—
Limited partners' interest in net income	$8,874	$5,648	$25,135	$14,566

See accompanying notes to consolidated and condensed financial statements.

[1] Financial information for 2012 has been revised to include results attributable to the Redbird Class A interests and the Blending and Packaging Assets acquired from Cross prior to October 2, 2012. See Note 1 – General.
*Related Party Transactions Shown Below

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

*Related Party Transactions Included Above

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012[1]	2013	2012[1]
Revenues:				
Terminalling and storage	$17,485	$14,805	$34,813	$30,080
Marine transportation	6,042	4,446	12,885	9,303
Product Sales	1,839	1,958	3,048	4,147
Costs and expenses:				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services	7,036	7,707	15,592	12,022
Sulfur services	4,441	3,970	8,975	8,401
Terminalling and storage	14,189	10,695	26,150	23,344
Expenses:				
Operating expenses	17,534	14,392	35,508	28,208
Selling, general and administrative	4,170	2,828	8,588	5,494

See accompanying notes to consolidated and condensed financial statements.

[1] Financial information for 2012 has been revised to include results attributable to the Redbird Class A interests and the Blending and Packaging Assets acquired from Cross prior to October 2, 2012. See Note 1 – General.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012[1]	2013	2012[1]
Allocation of net income attributable to:				
Limited partner interest:				
Continuing operations	$8,874	$4,090	$25,135	$11,518
Discontinued operations	—	1,558	—	3,048
	$8,874	$5,648	$25,135	$14,566
General partner interest:				
Continuing operations	$181	$1,118	$514	$2,494
Discontinued operations	—	426	—	661
	$181	$1,544	$514	$3,155
Net income attributable to limited partners:				
Basic:				
Continuing operations	$0.33	$0.18	$0.95	$0.51
Discontinued operations	—	0.07	—	0.13
	$0.33	$0.25	$0.95	$0.64
Weighted average limited partner units - basic	26,558	23,103	26,561	22,839
Diluted:				
Continuing operations	$0.33	$0.18	$0.95	$0.51
Discontinued operations	—	0.07	—	0.13
	$0.33	$0.25	$0.95	$0.64
Weighted average limited partner units - diluted	26,579	23,104	26,577	22,842

See accompanying notes to consolidated and condensed financial statements.

[1] Financial information for 2012 has been revised to include results attributable to the Redbird Class A interests and the Blending and Packaging Assets acquired from Cross prior to October 2, 2012. See Note 1 – General.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012[1]	2013	2012[1]
Net income	$9,078	$10,028	$25,715	$22,495
Other comprehensive income adjustments:				
Changes in fair values of commodity cash flow hedges	—	—	—	126
Commodity cash flow hedging losses reclassified to earnings	—	(499)	—	(689)
Other comprehensive income	—	(499)	—	(563)
Comprehensive income	$9,078	$9,529	$25,715	$21,932

See accompanying notes to consolidated and condensed financial statements.

[1] Financial information for 2012 has been revised to include results attributable to the Redbird Class A interests and the Blending and Packaging Assets acquired from Cross prior to October 2, 2012. See Note 1 – General.

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

	Partners' Capital					
	Parent Net Investment[1]	Common Limited		General Partner	Accumulated Other Comprehensive Income (Loss)	
		Units	Amount	Amount		Total
Balances - January 1, 2012	$51,571	20,471,776	$279,562	$5,428	$626	$337,187
Net income	4,774	—	14,566	3,155	—	22,495
Follow-on public offering	—	2,645,000	91,361	—	—	91,361
General partner contribution	—	—	—	1,951	—	1,951
Cash distributions	—	—	(35,253)	(3,635)	—	(38,888)
Unit-based compensation	—	—	118	—	—	118
Purchase of treasury units		—	(221)	—	—	(221)
Adjustment in fair value of derivatives	—	—	—	—	(563)	(563)
Balances - June 30, 2012	$56,345	23,116,776	$350,133	$6,899	$63	$413,440
Balances - January 1, 2013	$—	26,566,776	$349,490	$8,472	$—	$357,962
Net income	—	—	25,201	514	—	25,715
Issuance of restricted units	—	63,750	—	—	—	—
Forfeiture of restricted units	—	(250)	—	—	—	—
General partner contribution	—	—	—	37	—	37
Cash distributions	—	—	(41,135)	(917)	—	(42,052)
Unit-based compensation	—	—	479	—	—	479
Purchase of treasury units		(6,000)	(250)	—	—	(250)
Balances - June 30, 2013	$—	26,624,276	$333,785	$8,106	$—	$341,891

See accompanying notes to consolidated and condensed financial statements.

[1] Financial information for 2012 has been revised to include results attributable to the Redbird Class A interests and the Blending and Packaging Assets acquired from Cross prior to October 2, 2012. See Note 1 – General.

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

	Six Months Ended June 30,	
	2013	2012[1]
Cash flows from operating activities:		
Net income	$25,715	$22,495
Less: Income from discontinued operations	—	(3,709)
Net income from continuing operations	25,715	18,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,246	20,023
Amortization of deferred debt issuance costs	2,075	1,931
Amortization of debt discount	153	427
Deferred taxes	—	267
(Gain) loss on sale of property, plant and equipment	(796)	3
Equity in (earnings) loss of unconsolidated entities	301	(1,032)
Unit-based compensation	479	118
Other	6	—
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:		
Accounts and other receivables	66,658	21,253
Product exchange receivables	1,694	9,517
Inventories	4,946	(13,866)
Due from affiliates	(17,657)	(16,729)
Other current assets	(3,530)	868
Trade and other accounts payable	(29,256)	(11,959)
Product exchange payables	(1,211)	(21,534)
Due to affiliates	89	11,967
Income taxes payable	53	22
Other accrued liabilities	1,115	(1,282)
Accrued interest payable	6,579	(540)
Change in other non-current assets and liabilities	(563)	(574)
Net cash provided by continuing operating activities	81,096	17,666
Net cash provided by (used in) discontinued operating activities	(8,678)	5,210
Net cash provided by operating activities	72,418	22,876
Cash flows from investing activities:		
Payments for property, plant and equipment	(28,621)	(51,373)
Acquisitions	(63,004)	—
Payments for plant turnaround costs	—	(2,403)
Proceeds from sale of property, plant and equipment	4,719	23
Milestone distributions from ECP	—	2,208
Return of investments from unconsolidated entities	1,357	4,297
Contributions to unconsolidated entities	(30,578)	(18,123)
Net cash used in continuing investing activities	(116,127)	(65,371)
Net cash used in discontinued investing activities	—	(2,003)
Net cash used in investing activities	(116,127)	(67,374)
Cash flows from financing activities:		
Payments of long-term debt	(439,000)	(217,000)

Payments of notes payable and capital lease obligations	(160)	(6,453)
Proceeds from long-term debt	529,000	216,000
Net proceeds from follow on offering	—	91,361
General partner contribution	37	1,951
Purchase of treasury units	(250)	(221)
Decrease in affiliate funding of investments in unconsolidated entities	—	(2,208)
Payment of debt issuance costs	(9,011)	(204)
Cash distributions paid	(42,052)	(38,888)
Net cash provided by financing activities	38,564	44,338
Net decrease in cash	(5,145)	(160)
Cash at beginning of period	5,162	266
Cash at end of period	$17	$106

See accompanying notes to consolidated and condensed financial statements.

[1] Financial information for 2012 has been revised to include results attributable to the Redbird Class A interests and the Blending and Packaging Assets acquired from Cross prior to October 2, 2012. See Note 1 – General.

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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, 2013
(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 including the refining, blending, and packaging of finished lubricants; natural gas services, including liquids distribution services and natural gas storage; sulfur and sulfur-based products processing, manufacturing, marketing and distribution; and marine transportation services for petroleum products and by-products.

The Partnership's unaudited consolidated and condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and United States Generally Accepted Accounting Principles ("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, 2012, filed with the Securities and Exchange Commission (the "SEC") on March 4, 2013, as amended by Amendment No. 1 on Form 10-K/A for the year ended December 31, 2012 filed on March 28, 2013.

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. GAAP. Actual results could differ from those estimates.

As discussed in Note 4, on July 31, 2012, the Partnership completed the sale of its East Texas and Northwest Louisiana natural gas gathering and processing assets owned by Prism Gas Systems I, L.P. ("Prism Gas"), a wholly-owned subsidiary of the Partnership. These assets, along with additional gathering and processing assets discussed in Note 4, are collectively referred to as the "Prism Assets." The Partnership has retrospectively adjusted its prior period consolidated and condensed financial statements to comparably classify the amounts related to the operations and cash flows of the Prism Assets as discontinued operations.

On October 2, 2012, the Partnership, which owned 10.74% of the Class A interests and 100% of the Class B interests, acquired all of the remaining Class A interests in Redbird Gas Storage LLC ("Redbird") from Martin Underground Storage, Inc., ("MUS") a subsidiary of Martin Resource Management Corporation ("Martin Resource Management" or "Parent"). In 2011, the Partnership and Martin Resource Management formed Redbird, a natural gas storage joint venture to invest in Cardinal Gas Storage Partners LLC ("Cardinal"). Cardinal is a joint venture between Redbird and Energy Capital Partners ("ECP") that is focused on the development, construction, operation and management of natural gas storage facilities across northern Louisiana and Mississippi.

On October 2, 2012, the Partnership acquired from Cross Oil Refining and Marketing, Inc. ("Cross"), a wholly-owned subsidiary of Martin Resource Management, certain specialty lubricant product blending and packaging assets ("Blending and Packaging Assets").

The acquisitions of the Redbird Class A interests and the Blending and Packaging Assets were considered a transfer of net assets between entities under common control. As a result, the acquisitions of the Redbird Class A interests and the Blending and Packaging Assets are recorded at amounts based on the historical carrying value of these assets at October 2, 2012, and the Partnership is required to update its historical financial statements to include the activities of the Redbird Class A interests and the Blending and Packaging Assets as of the date of common control. 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 the Redbird Class A interests and the Blending and Packaging Assets as if the Partnership owned these assets for the periods presented. Net income attributable to the Redbird Class A interests and the activities of the Blending and Packaging 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 10.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
June 30, 2013
(Unaudited)

(2) New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") amended the provisions of Accounting Standards Codification ("ASC") 220 related to accumulated other comprehensive income, which does not change the current requirements for reporting net income or other comprehensive income in financial statements. The standard requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This amended guidance was adopted by the Partnership effective January 1, 2013. As this new guidance only requires enhanced disclosure, adoption did not impact the Partnership's financial position or results of operations.

(3) Acquisitions

NL Grease, LLC

On June 13, 2013, the Partnership acquired certain assets of NL Grease, LLC ("NLG") for $12,203. NLG is a Kansas City, Missouri based grease manufacturer that specializes in private-label packaging of commercial and industrial greases. The transaction was accounted for under the acquisition method of accounting in accordance with ASC 805 relating to business combinations. This transaction was funded by borrowings under the Partnership's revolving credit facility. The assets acquired by the Partnership were recorded in the Terminalling and Storage segment at fair value of $12,203 in the following preliminary purchase price allocation:

Inventory and other current assets	$ 1,572
Property, plant and equipment	5,964
Other assets	5,113
Other long-term obligations	(446)
Total	$ 12,203

The purchase price allocation resulted in the recognition of $5,113 in definite-lived intangible assets with no residual value, including $2,418 of technology, $2,218 attributable to a customer list, and $477 attributable to a non-compete agreement. The amounts assigned to technology, the customer list, and the non-compete agreement are amortized over the estimated useful life of ten years, three years, and five years, respectively. The weighted average life over which these acquired intangibles will be amortized is approximatelysix years.

The Partnership's results of operations included revenues of $521 and a net loss of $156 for the three and six months ended June 30, 2013 related to the NLG acquisition.

The Partnership has not obtained all of the information necessary to finalize the purchase price allocation. The final purchase price allocation is expected to be completed during the third quarter of 2013.

NGL Marine Equipment Purchase

On February 28, 2013, the Partnership purchased from affiliates of Florida Marine Transporters, Inc. six liquefied petroleum gas pressure barges and two commercial push boats for approximately $50,801, of which the commercial push boats totaling $8,201 were allocated to property, plant and equipment in the Partnership's Marine Transportation segment and the six pressure barges totaling $42,600 were allocated to property, plant and equipment in the Partnership's Natural Gas Services segment. The purchase 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)
June 30, 2013
(Unaudited)

Talen's Marine & Fuel LLC

On December 31, 2012, the Partnership acquired all of the outstanding membership interests in Talen's Marine & Fuel LLC ("Talen's") from QEP Marine Fuel Investment, LLC and QEP Marine Fuel Holdings, Inc. (collectively referred to as "Quintana Energy Partners") for $103,368, subject to certain post-closing adjustments, including the assumption of a note payable in the amount of $2,971. The transaction was accounted for under the acquisition method of accounting in accordance with ASC 805 relating to business combinations. Additionally, as required by ASC 805, the Partnership expensed acquisition related costs, of which $58 were recorded in selling, general and administrative expenses for the six months ended June 30, 2013. Through this acquisition, the Partnership acquired certain terminalling facilities and other terminalling related assets located along the Texas and Louisiana gulf coast. The purchase was funded by borrowings under the Partnership's revolving credit facility. Simultaneous with the acquisition, the Partnership sold certain working capital-related assets and a customer relationship intangible asset to Martin Energy Services LLC ("MES"), a wholly-owned subsidiary of Martin Resource Management for $56,000. Due to the Talen's acquisition, MES entered into various service agreements with Talen's pursuant to which the Partnership provides certain terminalling and marine services to MES. The excess carrying value of the assets over the purchase price paid by Martin Resource Management at the sales date was $4,268 and was recorded as an adjustment to partners' capital. The remaining net assets retained by the Partnership were recorded in the Terminalling and Storage segment at fair value of $43,100 in the following preliminary purchase price allocation:

Purchase price paid to acquire Talen's	$103,368	
Less proceeds received from Martin Resource Management for assets sold (described above)	(56,000	)
Less excess of carrying value of assets sold to Martin Resource Management over the purchase price paid by Martin Resource Management	(4,268	)
Total	$43,100	

Cash	$5,096	
Accounts and other receivables, net	2,682	
Other current assets	1,547	
Assets held for sale	3,578	
Property, plant and equipment	23,838	
Goodwill	11,279	
Notes payable	(2,971	)
Current liabilities	(1,480	)
Other long-term obligations	(469	)
Total	$43,100	

Goodwill recognized from the acquisition primarily relates to the expected contributions of the entity to the overall corporate strategy in addition to synergies and acquired workforce, which are not separable from goodwill.

The Partnership's results of operations included revenues of $1,232 and net income of $39 for the three months ended June 30, 2013 and revenues of $2,672 and net income of $557 for the six months ended June 30, 2013 related to the Talen's acquisition.

The Partnership has not obtained all of the information necessary to finalize the purchase price allocation. The final purchase price allocation is expected to be completed during 2013.

Lubricant Blending and Packaging Assets

On October 2, 2012, the Partnership purchased the Blending and Packaging Assets from Cross. The consideration consisted of $121,767 in cash at closing, plus a final net working capital adjustment of $907 paid in October of 2012. The purchase was funded by borrowings under the Partnership's revolving credit facility. This acquisition is considered a transfer of net assets between entities under common control. The acquisition of the Blending and Packaging assets was recorded at the historical carrying value of the assets at the acquisition date, which were as follows:

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
June 30, 2013
(Unaudited)

Accounts and other receivables, net	$ 20,599
Inventory	18,730
Other current assets	769
Property, plant and equipment, net	24,692
Current liabilities	(2,424)
Total	$ 62,366

The excess purchase price over the historical carrying value of the assets at the acquisition date was $60,308 and was recorded as an adjustment to partners' capital.

Redbird Class A Interests

On October 2, 2012, the Partnership acquired from MUS all of the remaining Class A interests in Redbird for $150,000 in cash. The Partnership began making Class A investments in Redbird during the fourth quarter of 2011. Prior to the transaction, the Partnership owned a 10.74% Class A interest and a 100% Class B interest in Redbird. The purchase was funded by borrowings under the Partnership's revolving credit facility. This acquisition is considered a transfer of net assets between entities under common control. The acquisition of these interests was recorded at the historical carrying value of the interests at the acquisition date. The Partnership recorded an investment in unconsolidated entities of $68,233 and the excess of the purchase price over the carrying value of the Class A interests of $81,767 was recorded as an adjustment to partners' capital.

(4) Discontinued operations and divestitures

On July 31, 2012, the Partnership completed the sale of its East Texas and Northwest Louisiana natural gas gathering and processing assets owned by Prism Gas and other natural gas gathering and processing assets also owned by the Partnership to a subsidiary of CenterPoint Energy Inc. (NYSE: CNP) ("CenterPoint"). The Partnership received net cash proceeds from the sale of $273,269. The asset sale includes the Partnership's 50% operating interest in Waskom Gas Processing Company ("Waskom"). A subsidiary of CenterPoint owned the other 50% percent interest.

Additionally, on September 18, 2012, the Partnership completed the sale of its interest in Matagorda Offshore Gathering System ("Matagorda") and Panther Interstate Pipeline Energy LLC ("PIPE") to a private investor group for $1,530.

The Partnership classified the results of operations of the Prism Assets, which were previously presented as a component of the Natural Gas Services segment, as discontinued operations in the consolidated and condensed statements of operations for all periods presented.

The Prism Assets' operating results, which are included within income from discontinued operations, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total revenues from third parties[1]	$—	$ 28,672	$—	$ 57,574

Total costs and expenses, excluding depreciation and amortization	—	(27,677)	—	(56,101)
Depreciation and amortization	—	(925)	—	(2,320)
Other operating income	—	—	—	10
Equity in earnings of Waskom, Matagorda, and PIPE	—	1,769	—	4,234
Income from discontinued operations before income taxes	—	1,839	—	3,397
Income tax benefit	—	(145)	—	(312)
Income from discontinued operations, net of income taxes	$—	$ 1,984	$—	$ 3,709

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[1] Total revenues from third parties excludes intercompany revenues of $0, $9,713, $0, and $23,146 for the three months ended June 30, 2013 and 2012, and six months ended June 30, 2013 and 2012, respectively.

(5) Inventories

Components of inventories at June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	December 31, 2012
Natural gas liquids	$36,933	$33,610
Sulfur	7,597	14,892
Sulfur based products	14,890	17,824
Lubricants	29,607	27,366
Other	4,286	2,295
	$93,313	$95,987

(6) Investments in Unconsolidated Entities and Joint Ventures

As discussed in detail in Note 4, the Partnership sold its 50% interests in Waskom, Matagorda, and PIPE in 2012. The equity in earnings associated with these investments during the period owned is recorded in income from discontinued operations for the three and six months ended June 30, 2012.

On May 1, 2008, certain assets and liabilities were contributed to acquire a 50% ownership interest in Cardinal. In conjunction with this transaction, ECP contributed cash for a 50% ownership interest in Cardinal.

The initial carrying amount of the investment in Cardinal was less than the contributed underlying net assets. Of the basis difference, $1,250 relates to differences in the carrying value of fixed assets contributed as compared to amounts recorded by Cardinal, and is being amortized over 40 years, the approximate useful life of the underlying assets. Such amortization amounted to $8 and $16 for each of the three and six months ended June 30, 2013 and 2012, respectively. The remaining basis difference is a permanent difference that will be realized upon sale of the investment in Cardinal.

On May 24, 2011, Redbird was formed to hold membership interests in Cardinal. On May 27, 2011, initial contributions consisted of all of Martin Resource Management’s membership interests in Cardinal for 100% of the Class A interests in Redbird. Simultaneously, the Partnership acquired 100% of the Class B interests in Redbird for approximately $59,319. Concurrent with the closing of this transaction, Redbird contributed the cash to Cardinal which used the cash, along with a contribution from ECP, to acquire all of the outstanding equity interests in Monroe Gas Storage Company, LLC as well as an option on development rights to an adjacent depleted reservoir facility. As discussed in Note 3, on October 2, 2012, the Partnership, acquired the remaining Class A interests in Redbird from Martin Resource Management. As this acquisition is considered a transfer of net assets between entities under common control, the acquisition is recorded at the historical carrying value of these assets at that date. The Partnership is required to retrospectively update its historical financial statements to include the activities of the Class A interests in Redbird as of the date of common control. The Partnership's accompanying historical financial statements for the three and six months ended June 30, 2012 have been retrospectively updated to reflect the effects on financial

position, cash flows and results of operations attributable to the Redbird Class A interests as if the Partnership owned these assets for these periods.

At June 30, 2013, Redbird owned an unconsolidated 42.19% interest in Cardinal. Redbird utilized the investments by the Partnership to invest in Cardinal to fund projects for natural gas storage facilities.

At June 30, 2013, the Partnership owned an unconsolidated 50% interest in Caliber Gathering, LLC ("Caliber").

During the second quarter of 2012, the Partnership acquired an unconsolidated 50% interest in Pecos Valley Producer Services LLC ("Pecos Valley"). The Partnership sold its interest in Pecos Valley during the third quarter of 2012.

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During March 2013, the Partnership acquired 100% of the preferred interests in Martin Energy Trading LLC ("MET"), a subsidiary of Martin Resource Management, for $15,000.

These investments are accounted for by the equity method.

The following tables summarize the components of the investment in unconsolidated entities on the Partnership's consolidated and condensed balance sheets and the components of equity in earnings of unconsolidated entities included in the Partnership's consolidated and condensed statements of operations:

	June 30, 2013	December 31, 2012
Redbird	$167,392	$153,749
MET	15,594	—
Caliber	243	560
Total investment in unconsolidated entities	$183,229	$154,309

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Equity in earnings of Waskom[1]	$—	$1,559	$—	$3,884
Equity in earnings of PIPE[1]	—	(21)	—	(69)
Equity in earnings of Matagorda[1]	—	231	—	419
Equity in earnings of discontinued operations	—	1,769	—	4,234
Equity in earnings of Redbird	(362)	832	(578)	1,065
Equity in earnings of MET	594	—	594	—
Equity in earnings of Caliber	(159)	(21)	(317)	(21)
Equity in earnings of Pecos Valley	—	(12)	—	(12)
Equity in earnings of unconsolidated entities	73	799	(301)	1,032
Total equity in earnings of unconsolidated entities	$73	$2,568	$(301)	$5,266

[1] For the three and six months ended June 30, 2012, the financial information for Waskom, Matagorda, and PIPE is included in the consolidated and condensed statement of operations and cash flows as discontinued operations.

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

	As of December 31,		Three Months Ended June 30,		Six Months Ended June 30,	
	Total Assets	Partners' Capital	Revenues	Net Income	Revenues	Net Income
2012						
Waskom	$—	$—	$27,207	$3,394	$58,491	$8,318

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	As of June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	Total Assets	Partners' Capital	Revenues	Net Income	Revenues	Net Income
2013						
Cardinal	$768,193	$475,541	$10,708	$(392)	$18,795	$59
	As of December 31					
2012						
Cardinal	$694,767	$457,297	$7,898	$(2,343)	$17,067	$(1,733)

As of June 30, 2013 and December 31, 2012, the Partnership's interest in cash of the unconsolidated equity-method investees was $2,996 and $1,265, respectively.

(7) Derivative Instruments and Hedging Activities

The Partnership's results of operations are materially impacted by changes in crude oil, natural gas and NGL prices and interest rates. In an effort to manage its exposure to these risks, the Partnership periodically enters into various derivative instruments, including commodity and interest rate hedges.

(a) Commodity Derivative Instruments

The Partnership is not currently exposed to market risks associated with commodity prices but from time to time has used 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 potential commodity risk exposure. These hedging arrangements have been in the form of swaps for crude oil, natural gas and natural gasoline. In addition, the Partnership has focused on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction.

Due to the sale of the Prism Assets during 2012, the Partnership terminated and settled all of its commodity derivative instruments during the second quarter of 2012. For the three and six months ended June 30, 2012, changes in the fair value of the Partnership's derivative contracts were recorded in both earnings (income from discontinued operations) and in accumulated other comprehensive income as a component of partners' capital.

(b) Impact of Commodity Cash Flow Hedges

Crude Oil. For the three and six months ended June 30, 2012, net gains and losses on swap hedge contracts increased crude revenue (included in income from discontinued operations) by $618 and $533, respectively.

Natural Gas. For the three and six months ended June 30, 2012, net gains and losses on swap hedge contracts increased gas revenue (included in income from discontinued operations) by $533 and $736, respectively.

Natural Gas Liquids. For the three and months ended June 30, 2012, net gains and losses on swap hedge contracts decreased liquids revenue (included in income from discontinued operations) by $1,116 and $1,061, respectively.

For information regarding gains and losses on commodity derivative instruments and related hedged items, see "Tabular Presentation Gains and Losses on Derivative Instruments and Related Hedged Items" within this Note.

(c) Impact of Interest Rate Derivative Instruments

The Partnership is exposed to market risks associated with interest rates. From time to time, 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.

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Tabular Presentation of Gains and Losses on Derivative Instruments and Related Hedged Items

Effect of Derivative Instruments on the Consolidated and Condensed Statement of Operations For the Three Months Ended June 30, 2013 and 2012

	Effective Portion					Ineffective Portion and Amount Excluded from Effectiveness Testing		
	Amount of Gain or (Loss) Recognized in OCI on Derivatives		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income		Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
	2013	2012		2013	2012		2013	2012
Derivatives designated as hedging instruments:								
Commodity contracts	$—	$—	Income from Discontinued Operations	$—	$499	Income from Discontinued Operations	$—	$—
Total derivatives designated as hedging instruments	$—	$—		$—	$499		$—	$—

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		2013	2012
Derivatives not designated as hedging instruments:			
Commodity contracts	Income from Discontinued Operations	$—	$1,768
Total derivatives not designated as hedging instruments		$—	$1,768

Effect of Derivative Instruments on the Consolidated and Condensed Statement of Operations For the Six Months Ended June 30, 2013 and 2012

	Effective Portion			Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Amount of Gain or (Loss) Recognized in OCI on Derivatives	Location of Gain or (Loss) Reclassified	Amount of Gain or (Loss) Reclassified from Accumulated	Location of Gain or (Loss) Recognized in	Amount of Gain or (Loss) Recognized in Income on Derivatives

	2013	2012	from Accumulated OCI into Income	OCI into Income 2013	2012	Income on Derivatives	2013	2012
Derivatives designated as hedging instruments:								
Commodity contracts	$—	$126	Income from Discontinued Operations	$—	$685	Income from Discontinued Operations	$—	$4
Total derivatives designated as hedging instruments	$—	$126		$—	$685		$—	$4

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives 2013	2012
Derivatives not designated as hedging instruments:			
Commodity contracts	Income from Discontinued Operations	$—	$1,641
Total derivatives not designated as hedging instruments		$—	$1,641

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(8) Fair Value Measurements

The Partnership follows the 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.

The following items are measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 at June 30, 2013 and December 31, 2012:

	Fair Value Measurements at Reporting Date Using			
Description	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
2018 Senior unsecured notes	$184,501	$—	$184,501	$—
2021 Senior unsecured notes	258,105	—	258,105	—
Total liabilities	$442,606	$—	$442,606	$—

	Fair Value Measurements at Reporting Date Using			
Description	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
2018 Senior unsecured notes	$187,066	$—	$187,066	$—
Total liabilities	$187,066	$—	$187,066	$—

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, accrued interest payable, other accrued liabilities, income taxes payable and due from/to affiliates: The carrying amounts approximate fair value due to the short maturity and highly liquid nature of these instruments, and as such these have been excluded from the table above.

- Long-term debt including current portion: The carrying amount of the revolving credit facility approximates fair value due to the debt having a variable interest rate and is in Level 2. The estimated fair value of the senior unsecured notes

is based on market prices of similar debt. The carrying amount of the Partnership's note payable to bank as of June 30, 2013 is not deemed to be significantly different than the fair value.

(9) Long-Term Debt and Capital Leases

At June 30, 2013 and December 31, 2012, long-term debt consisted of the following:

	June 30, 2013	December 31, 2012
$600,000 Revolving loan facility at variable interest rate (2.97%* weighted average at June 30, 2013), due March 2018 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	$ 136,000	$ 296,000
$200,000** Senior notes, 8.875% interest, net of unamortized discount of $1,458 and $1,612, respectively, issued March 2010 and due April 2018, unsecured	173,542	173,388
$250,000 Senior notes, 7.250% interest, issued February 2013 and due February 2021, unsecured	250,000	—
$3,315 Note payable to bank, interest rate at 4.75%, maturity date of October 2029, unsecured	2,914	2,971
Capital lease obligations	5,735	5,839
Total long-term debt and capital lease obligations	568,191	478,198
Less current installments	3,185	3,206
Long-term debt and capital lease obligations, net of current installments	$ 565,006	$ 474,992

* 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 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 is 2.50%. Effective July 1, 2013, the applicable margin for existing LIBOR borrowings remained at 2.50%. Effective October 1, 2013, the applicable margin for existing LIBOR borrowings will remain at 2.50%. As of August 5, 2013, the Partnership's weighted average interest rate on its revolving loan facility is 3.16%.

** Pursuant to the Indenture under which the Senior Notes due in 2018 were issued, the Partnership has the option to redeem up to 35% of the aggregate principal amount at a redemption price of 108.875% of the principal amount, plus accrued and unpaid interest with the proceeds of certain equity offerings. On April 24, 2012, the Partnership notified the Trustee of its intention to exercise a partial redemption of the Partnership's Senior Notes pursuant to the Indenture. On May 24, 2012, the Partnership redeemed $25,000 of the Senior Notes from various holders using proceeds of the Partnership's January 2012 follow-on equity offering, which in the interim were used to pay down amounts outstanding under the Partnership's revolving credit facility.

Effective March 28, 2013, the Partnership increased the maximum amount of borrowings and letters of credit available under the Credit Facility from $400,000 to $600,000 and extended the term from April 2016 to March 2018.

On February 11, 2013, the Partnership completed a private placement of $250,000 in aggregate principal amount of 7.250% senior unsecured notes due 2021 to qualified institutional buyers under Rule 144A. The Partnership has filed a registration statement on Form S-4 with the SEC to exchange the Notes for registered 7.250% senior unsecured notes due February 2021. The exchange offer was completed on July 31, 2013.

The Partnership paid cash interest in the amount of $9,391 and $14,343 for the three months ended June 30, 2013 and 2012, respectively. The Partnership paid cash interest in the amount of $11,608 and $16,751 for the six months ended June 30, 2013 and 2012, respectively. Capitalized interest was $238 and $270 for the three months ended June 30, 2013 and 2012, respectively. Capitalized interest was $418 and $624 for the six months ended June 30, 2013 and 2012, respectively.

(10) Partners' Capital

As of June 30, 2013, partners’ capital consisted of 26,624,276 common limited partner units, representing a 98% partnership interest and a 2% general partner interest. Martin Resource Management, through subsidiaries, owned 5,093,267 of the Partnership's common limited partnership units representing approximately 19.1% of the Partnership's outstanding common limited partnership units and a 2% general partnership interest.

The partnership agreement of the Partnership (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.

Issuance of Common Units

On November 26, 2012, the Partnership completed a public offering of 3,450,000 common units at a price of $31.16 per common unit, before the payment of underwriters' discounts, commissions and offering expenses (per unit value is in dollars, not thousands). Total proceeds from the sale of the 3,450,000 common units, net of underwriters' discounts, commissions and offering expenses were $102,809. The Partnership's general partner contributed $2,194 in cash to the Partnership in conjunction with the issuance in order to maintain its 2% general partner interest in the Partnership. All of the net proceeds were used to reduce outstanding indebtedness of the Partnership.

On January 25, 2012, the Partnership completed a public offering of 2,645,000 common units at a price of $36.15 per common unit, before the payment of underwriters’ discounts, commissions and offering expenses (per unit value is in dollars, not thousands). Total proceeds from the sale of the 2,645,000 common units, net of underwriters’ discounts, commissions and offering expenses were $91,361. The Partnership’s general partner contributed $1,951 in cash to the Partnership in conjunction with the issuance in order to maintain its 2% general partner interest in the Partnership. All of the net proceeds were used to reduce outstanding indebtedness of the Partnership.

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 operating surplus, as defined in the Partnership Agreement. On October 2, 2012, the Partnership Agreement was amended to provide that the General Partner shall forego the next $18,000 in incentive distributions that it would otherwise be entitled to receive. No incentive distributions were allocated to the general partner from July 1, 2012 (which would have been payable to the general partner on November 14, 2012 for the third quarter of 2012 distribution) through June 30, 2013. As of June 30, 2013, the amount of incentive distributions the general partner has foregone is $5,397, resulting in an amount remaining of $12,603.

The target distribution levels entitle the general partner to receive 2% of quarterly cash distributions up to $0.55 per unit, 15% of quarterly cash distributions in excess of $0.55 per unit until all unitholders have received $0.625 per unit, 25% of quarterly cash distributions in excess of $0.625 per unit until all unitholders have received $0.75 per unit and 50% of quarterly cash distributions in excess of $0.75 per unit.

For the three months ended June 30, 2013 and 2012, the general partner received $0 and $1,429, respectively, in incentive distributions. For the six months ended June 30, 2013 and 2012, the general partner received $0 and $2,857, respectively, in incentive distributions.

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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.

Net Income per Unit

The Partnership follows the provisions of the FASB 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. Undistributed earnings are allocated to the general partner and limited partners utilizing the contractual terms of the Partnership Agreement. Distributions to the general partner pursuant to the IDRs are limited to available cash that will be distributed as defined in the Partnership Agreement. Accordingly, the Partnership does not allocate undistributed earnings to the general partner for the IDRs because the general partner's share of available cash is the maximum amount that the general partner would be contractually entitled to receive if all earnings for the period were distributed. 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. Additionally, as required under FASB ASC 260-10-45-61A, unvested share-based payments that entitle employees to receive non-forfeitable distributions are considered participating securities, as defined in FASB ASC 260-10-20, for earnings per unit calculations.

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 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 is a reconciliation of net income from continuing operations and net income from discontinued operations allocated to the general partner and limited partners for purposes of calculating net income attributable to limited partners per unit:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Continuing operations:				
Net income attributable to Martin Midstream Partners L.P.	$9,078	$8,044	$25,715	$18,786
Less pre-acquisition income allocated to Parent	—	2,836	—	4,774
Less general partner’s interest in net income:				
Distributions payable on behalf of IDRs	—	1,034	—	2,259
Distributions payable on behalf of general partner interest	461	282	917	615

Distributions payable to the general partner interest in excess of earnings allocable to the general partner interest	(280)	(198)	(403)	(380)
Less income allocable to unvested restricted units	23	—	66	—
Limited partners’ interest in net income	$8,874	$4,090	$25,135	$11,518

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Discontinued operations:				
Net income attributable to Martin Midstream Partners L.P.	$—	$1,984	$—	$3,709
Less general partner’s interest in net income:				
Distributions payable on behalf of IDRs	—	394	—	598
Distributions payable on behalf of general partner interest	—	107	—	163
Distributions payable to the general partner interest in excess of earnings allocable to the general partner interest	—	(75)	—	(100)
Limited partners’ interest in net income	$—	$1,558	$—	$3,048

The Partnership allocates the general partner's share of earnings between continuing and discontinued operations as a proportion of net income from continuing and discontinued operations to total net income. The allocation is done at each period end on an annual basis, resulting in each quarter representing the difference between year to date of the current quarter and year to date as of the previous quarter.

The weighted average units outstanding for basic net income per unit were 26,558,028 and 26,561,218 for the three and six months ended June 30, 2013, respectively, and 23,102,534 and 22,839,470 for the three and six months ended June 30, 2012, respectively. For diluted net income per unit, the weighted average units outstanding were increased by 21,284 and 15,496 for the three and six months ended June 30, 2013, respectively, and 1,562 and 2,688 for the three and six months ended June 30, 2012, respectively, due to the dilutive effect of restricted units granted under the Partnership’s long-term incentive plan.

(11) Related Party Transactions

As of June 30, 2013, Martin Resource Management owns 5,093,267 of the Partnership’s common units representing approximately 19.1% 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 IDRs. The Partnership’s general partner’s ability, as general partner, to manage and operate the Partnership, and Martin Resource Management’s ownership as of June 30, 2013, of approximately 19.1% 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 agreements and transactions:

Omnibus Agreement

Omnibus Agreement. The Partnership and its general partner are parties to an omnibus agreement dated November 1, 2002, with Martin Resource Management (the “Omnibus Agreement”) 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 was amended

on November 25, 2009, to include processing crude oil into finished products including naphthenic lubricants, distillates, asphalt and other intermediate cuts. The Omnibus Agreement was amended further on October 1, 2012, to permit the Partnership to provide certain lubricant packaging products and services to Martin Resource Management.

Non-Competition Provisions. Martin Resource Management has agreed for so long as it controls the general partner of the Partnership, not to engage in the business of:

- providing terminalling and storage services for petroleum products and by-products including the refining, blending and packaging of finished lubricants;

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- providing marine transportation of petroleum products and by-products;

- distributing NGLs; and

- manufacturing and selling sulfur-based fertilizer products and other sulfur-related products.

This restriction does not apply to:

- the ownership and/or operation on the Partnership's behalf of any asset or group of assets owned by it or its affiliates;

- any business operated by Martin Resource Management, including the following:

    providing land transportation of various liquids;

distributing fuel oil, sulfuric acid, marine fuel and other liquids;

providing marine bunkering and other shore-based marine services in Alabama, Florida, Louisiana, Mississippi and Texas;

operating a crude oil gathering business in Stephens, Arkansas;

providing crude oil gathering, refining, and marketing services of base oils, asphalt, and distillate products in Smackover, Arkansas;

operating an underground NGL storage facility in Arcadia, Louisiana;

operating an environmental consulting company;

operating an engineering services company;

building and marketing sulfur processing equipment;

supplying employees and services for the operation of the Partnership's business;

operating, for its account and the Partnership's account, the docks, roads, loading and unloading facilities and other common use facilities or access routes at the Partnership's Stanolind terminal; and

operating, solely for the Partnership's account, the asphalt facilities in Omaha, Nebraska, Port Neches, Texas and South Houston, Texas.

- any business that Martin Resource Management acquires or constructs that has a fair market value of less than $5,000;

- any business that Martin Resource Management acquires or constructs that has a fair market value of $5,000 or more if the Partnership has been offered the opportunity to purchase the business for fair market value and the Partnership declines to do so with the concurrence of the conflicts committee; and
- any business that Martin Resource Management acquires or constructs where a portion of such business includes a restricted business and the fair market value of the restricted business is $5,000 or more and represents less than 20% of the aggregate value of the entire business to be acquired or constructed; provided that, following completion of the acquisition or construction, the Partnership will be provided the opportunity to purchase the restricted business.

Services. Under the Omnibus Agreement, Martin Resource Management provides the Partnership with corporate staff, support services, and administrative services necessary to operate the Partnership's business. 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 the Partnership's 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, under the Omnibus Agreement, the Partnership is required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses.

Effective October 1, 2012, through December 31, 2013, the conflicts committee of the board of directors of the general partner of the Partnership (the "Conflicts Committee") approved an annual reimbursement amount for indirect expenses of $10,622. The Partnership reimbursed Martin Resource Management for $2,655 and $5,311 of indirect expenses for the three and six months ended June 30, 2013, respectively. The Partnership reimbursed Martin Resource Management for $1,645 and $3,291 of indirect expenses for the three and six months ended June 30, 2012, respectively. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually.

These indirect expenses are intended to cover the centralized corporate functions Martin Resource Management provides for the Partnership, such as accounting, treasury, clerical, engineering, legal, 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 retained businesses. The provisions of the Omnibus Agreement regarding Martin Resource Management's services will terminate if Martin Resource Management ceases to control the general partner of the Partnership.

Related Party Transactions. 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. 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 then-applicable agreed upon reimbursable amount of indirect general and administrative expenses. Please read "Services" above.

License Provisions. 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.

Amendment and Termination. 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 unitholders. The Omnibus Agreement was first amended on November 25, 2009, to permit the Partnership to provide refining services to Martin Resource Management. The Omnibus Agreement was amended further on October 1, 2012, to permit the Partnership to provide certain lubricant packaging products and services to Martin Resource Management. Such amendments were approved by the Conflicts Committee of the Partnership's general partner. 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 its behalf, will terminate if the Partnership is no longer an affiliate of Martin Resource Management.

Motor Carrier Agreement

Motor Carrier Agreement. The Partnership is a party to a motor carrier agreement effective January 1, 2006 as amended, with Martin Transport, Inc., a wholly owned subsidiary of Martin Resource Management through which Martin Transport, Inc. operates its land transportation operations. Under the agreement, Martin Transport, Inc. agreed to transport the Partnership's NGL's as well as other liquid products.

Term and Pricing. The agreement has an initial term that expired in December 2007 but 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 has the right to terminate this agreement at any time by providing 90 days prior notice. These rates are subject to any adjustments which are mutually agreed upon or 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.

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Marine Agreements

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 the Partnership provides marine transportation services to Martin Resource Management on a spot-contract basis at applicable market rates. 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.

Marine Fuel. The Partnership is a party to an agreement with Martin Resource Management dated November 1, 2002 under which Martin Resource Management provides the Partnership with marine fuel from its locations in the Gulf of Mexico at a fixed rate in excess of the Platt's U.S. Gulf Coast Index for #2 Fuel Oil. Under this agreement, the Partnership agreed to purchase all of its marine fuel requirements that occur in the areas serviced by Martin Resource Management.

Terminal Services Agreements

Diesel Fuel Terminal Services Agreement. The Partnership is a party to an agreement under which the Partnership provides terminal services to Martin Resource Management. This agreement was amended and restated as of October 27, 2004, and was set to expire in December 2006, but automatically renewed and will continue to automatically renew on a month-to-month basis until either party terminates the agreement by giving 60 days written notice. The per gallon throughput fee the Partnership charges under this agreement may be adjusted annually based on a price index.

Miscellaneous Terminal Services Agreements. The Partnership is currently party to several terminal services agreements and from time to time the Partnership may enter into other terminal service agreements for the purpose of providing terminal services to related parties. Individually, each of these agreements is immaterial but when considered in the aggregate they could be deemed material. These agreements are throughput based with a minimum volume commitment. Generally, the fees due under these agreements are adjusted annually based on a price index.

Talen's Agreements. In connection with the Talen's acquisition, three new agreements were executed, all with effective dates of December 31, 2012. Under the terms of these contracts, Talen's provides terminal services and marine transportation services to Martin Resource Management. The terminal services agreements both have five-year terms and provide a per gallon throughput rate, which may be adjusted annually based on a price index. The marine transportation agreement has an initial term of one year with automatic successive one-year renewals unless either party elects not to do so. Contract rates are based on the horsepower and capacity of the marine vessels.

Other Agreements

Cross Tolling Agreement. The Partnership is a party to an agreement with Cross, originally dated November 25, 2009, under which the Partnership processes crude oil into finished products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts for Cross. The Tolling Agreement, which has subsequently been amended, has a 22 year term which expires November 25, 2031. Under this Tolling Agreement, Cross agreed to

process a minimum of 6,500 barrels per day of crude oil at the facility at a fixed price per barrel. Any additional barrels are processed at a modified price per barrel. In addition, Cross agreed to pay a monthly reservation fee 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.

Sulfuric Acid Sales Agency Agreement. The Partnership is party to an agreement dated August 1, 2008 under which Martin Resource Management purchases and markets the sulfuric acid produced by the Partnership's sulfuric acid production plant at Plainview, Texas, that is not consumed by the Partnership's internal operations. This agreement, as amended, 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.

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Other 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 and Condensed 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 and condensed financial statement and do not reflect a statement of profits and losses for related party transactions.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Terminalling and storage	$17,485	$14,805	$34,813	$30,080
Marine transportation	6,042	4,446	12,885	9,303
Product sales:				
Natural gas services	—	30	9	