

MARTIN MIDSTREAM PARTNERS LP

Form S-1/A

January 23, 2004

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As filed with the Securities and Exchange Commission on January 23, 2004

Registration Statement No. 333-111450

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Martin Midstream Partners L.P.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

4449 and 5171
*(Primary Standard Industrial
Classification Code Number)*

05-0527861
*(I.R.S. Employer
Identification No.)*

4200 Stone Road

Kilgore, Texas 75662
(903) 983-6200
*(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)*

Ruben S. Martin
Martin Midstream Partners L.P.
4200 Stone Road
Kilgore, Texas 75662
(903) 983-6200
*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

Copies to:

Neel Lemon
Baker Botts L.L.P.
2001 Ross Avenue
600 Trammell Crow Center
Dallas, Texas 75201-2980
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Facsimile: (214) 953-6503

Thomas P. Mason
Vinson & Elkins L.L.P.
2300 First City Tower
1001 Fannin
Houston, Texas 77002
Telephone: (713) 758-2222
Facsimile: (713) 758-2346

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ☐

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amounts to be Registered(1)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common units representing limited partnership interests	1,322,500	\$37,030,000	\$2,996

(1) Includes 172,500 common units issuable upon exercise of the underwriters' over-allotment option.

(2) Calculated in accordance with Rule 457(c) on the basis of the average of the high and low bid and asked price of the common units on January 21, 2004.

(3) The registrant previously paid \$2,781 of such registration fee in connection with its initial filing.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated January 23, 2004

PROSPECTUS

1,150,000 Common Units

(MARTIN MIDSTREAM PARTNERS L.P. LOGO)

Representing Limited Partner Interests

We are offering 1,150,000 common units representing limited partner interests. Our common units are quoted on the Nasdaq National Market under the symbol MMLP. On January 21, 2004, the last reported sale price of our common units on the Nasdaq National Market was \$28.60 per common unit.

You should consider the risks which we have described in Risk Factors beginning on page 18 before buying our common units.

These risks include the following:

We may not have sufficient cash to enable us to pay the minimum quarterly distribution on the common units each quarter.

Our business could be adversely impacted by seasonality and weather.

If we are unable to integrate our recent or any future acquisitions our financial performance may suffer.

We may not be able to retain existing customers or acquire new customers because of the highly competitive nature of our business.

Cost reimbursements we pay our general partner may be substantial and will reduce the cash available for distribution to unitholders.

Martin Resource Management Corporation, the owner of our general partner, and its affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to your detriment.

Unitholders have less power to elect or remove management of our general partner than holders of common stock in a corporation. At the closing of this offering, common unitholders will not have sufficient voting power to elect or remove our general partner without the consent of Martin Resource Management Corporation.

You may be required to pay taxes on income from us even if you do not receive any cash distributions.

	<u>Per Common Unit</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Martin Midstream Partners L.P.	\$	\$

The underwriters may purchase up to an additional 172,500 common units from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments. The underwriters expect to deliver the units to purchasers on or before , 2004.

Neither the Securities and Exchange Commission nor any state securities commission have approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

RAYMOND JAMES

A.G. EDWARDS & SONS, INC.

MCDONALD INVESTMENTS INC.

RBC CAPITAL MARKETS

The date of this prospectus is _____, 2004

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Risks Relating to Our Business

We may not have sufficient cash after the establishment of cash reserves and payment of our general partner's expenses to enable us to pay the minimum quarterly distribution each quarter.

Adverse weather conditions could reduce our results of operations and ability to make distributions to our unitholders.

We receive a material portion of our net income and cash available for distribution from our unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P.

We may have to sell our interest, or buy the other partnership interests in CF Martin Sulphur, L.P. at a time when it may not be in our best interest to do so.

If CF Martin Sulphur, L.P. issues additional partnership interests, our ownership interest in this partnership could be diluted. Consequently, our share of CF Martin Sulphur, L.P.'s distributable cash could be reduced, which could adversely affect our ability to make distributions to our unitholders.

If we incur material liabilities that are not fully covered by insurance, such as liabilities resulting from accidents on rivers or at sea, spills, fires or explosions, our results of operations and ability to make distributions to our unitholders could be adversely affected.

The price volatility of hydrocarbon products and by-products can reduce our results of operations and ability to make distributions to our unitholders.

Restrictions in our credit agreement may prevent us from making distributions to our unitholders.

If we do not have sufficient capital resources for acquisitions or opportunities for expansion, our growth will be limited.

Our recent and any future acquisitions may not be successful, may substantially increase our indebtedness and contingent liabilities, and may create integration difficulties.

Demand for our terminalling services is substantially dependent on the level of offshore oil and gas exploration, development and production activity.

Our LPG and fertilizer businesses are seasonal and could cause our revenues to vary.

The highly competitive nature of our industry could adversely affect our results of operations and ability to make distributions to our unitholders.

Our business is subject to federal, state and local laws and regulations relating to environmental, safety and other regulatory matters. The violation of or the cost of compliance with these laws and regulations could adversely affect our results of operations and ability to make distributions to our unitholders.

The loss or insufficient attention of key personnel could negatively impact our results of operations and ability to make distributions to our unitholders. Additionally, if neither Ruben Martin nor Scott Martin is the chief executive officer of our general partner, amounts we owe under our credit facility may become immediately due and payable.

Our loss of significant commercial relationships with Martin Resource Management could adversely impact our results of operations and ability to make distributions to our unitholders. Our business would be adversely affected if operations at our transportation, terminalling and distribution facilities experienced significant interruptions. Our business would also be adversely affected if the operations of our customers and suppliers experienced significant interruptions. Our marine transportation business would be adversely affected if we do not satisfy the requirements of the Jones Act, or if the Jones Act were modified or eliminated. Our marine transportation business would be adversely affected if the United States Government purchases or requisitions any of our vessels under the Merchant Marine Act. Regulations affecting the domestic tank vessel industry may limit our ability to do business, increase our costs and adversely impact our results of operations and ability to make distributions to our unitholders.

Risks Relating to an Investment in the Common Units

Cost reimbursements due to Martin Resource Management may be substantial and will reduce our cash available for distribution to our unitholders.

Martin Resource Management has conflicts of interest and limited fiduciary responsibilities, which may permit it to favor its own interests to the detriment of our unitholders.

Unitholders have less power to elect or remove management of our general partner than holders of common stock in a corporation. At the closing of this offering, common unitholders will not have sufficient voting power to elect or remove our general partner without the consent of Martin Resource Management

Our general partner's discretion in determining the level of our cash reserves may adversely affect our ability to make cash distributions to our unitholders.

You may not have limited liability if a court finds that we have not complied with applicable statutes or that unitholder action constitutes control of our business.

Our partnership agreement contains provisions that reduce the remedies available to unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner.

We may issue additional common units without your approval, which would dilute your ownership interest.

The control of our general partner may be transferred to a third party, and that party could replace our current management team, without unitholder consent. Additionally, if Martin Resource Management no longer controls our general partner, amounts we owe under our credit facility may become immediately due and payable

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

Martin Resource Management and its affiliates may engage in limited competition with us.

Our common units have a limited trading history and a limited trading volume compared to other publicly traded securities.

Tax Risks

The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to unitholders.

A successful IRS contest of the federal income tax positions we take may adversely affect the market for our common units and the costs of any contest will be borne by our unitholders and our general partner.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

Tax gain or loss on the disposition of our common units could be different than expected.

Changes in federal income tax law could affect the value of our common units.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

We treat a purchaser of our common units as having the same tax benefits without regard to the seller's identity. The IRS may challenge this treatment, which could adversely affect the value of the common units.

You may be subject to state, local and foreign taxes and return filing requirements as a result of investing in our common units.

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[Inside Front Cover]

[Map depicting location of partnership's assets and operations

with photographs of operating assets of partnership.]

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations, and prospects may have changed since that date.

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PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the historical and pro forma financial statements and the notes to those financial statements. The information presented in this prospectus assumes that the underwriters' over-allotment option is not exercised. Financial information, other than pro forma financial information, presented in this prospectus does not include financial results from the Tesoro Marine asset acquisition described below under **Recent Developments** **Recent Acquisitions** **Tesoro Marine Asset Acquisition**. Pro forma as adjusted financial information presented in this prospectus gives pro forma effect to the Tesoro Marine asset acquisition, the borrowings on our revolving credit facility, this offering, the implementation of new contracts with Martin Resource Management and our initial public offering. For a more detailed description of the pro forma adjustments and the assumptions used in preparing the pro forma financial information, you should read the pro forma financial statements and the accompanying notes included elsewhere in this prospectus. You should read **Summary of Risk Factors** beginning on page 4 and **Risk Factors** beginning on page 18 for information about important factors you should consider before buying common units. We include a glossary of some of the terms used in this prospectus in Appendix A.*

*Martin Midstream Partners L.P. is the issuer of securities in this offering. References in this prospectus to **Martin Midstream Partners L.P.**, **we**, **ours**, **us**, or like terms when used in the present tense or prospectively or for historical periods since November 2002 refer to Martin Midstream Partners L.P. and its consolidated subsidiaries. References to **Martin Midstream Partners Predecessor**, **we**, **ours**, **us**, or like terms when used in a historical context for periods prior to November 2002 refer to the assets and operations of Martin Resource Management's businesses that were contributed to us in connection with the closing of our initial public offering in November 2002. References in this prospectus to **Martin Resource Management** refer to Martin Resource Management Corporation and its direct and indirect consolidated and unconsolidated subsidiaries. For the reasons stated elsewhere herein, we refer to the term **EBITDA**. **EBITDA** is a non-GAAP financial measure, which is explained in greater detail below under **Summary Historical and Pro Forma Financial Data** and **Summary Historical and Pro Forma Financial Data** **Non-GAAP Financial Measure**. We refer to liquefied petroleum gas as **LPG** in this prospectus.*

Martin Midstream Partners L.P.

We provide marine transportation, terminalling, distribution and midstream logistical services for producers and suppliers of hydrocarbon products and by-products, lubricants and other liquids. We also manufacture and market sulfur-based fertilizers and related products. Hydrocarbon products and by-products are produced primarily by major and independent oil and gas companies who often turn to independent third parties, such as us, for the transportation and disposition of these products. In addition to these major and independent oil and gas companies, our primary customers include independent refiners, large chemical companies, fertilizer manufacturers and other wholesale purchasers of hydrocarbon products and by-products.

We operate primarily in the Gulf Coast region of the United States. This region is a major hub for petroleum refining, natural gas processing and support services to the offshore exploration and production industry. We provide our marine transportation and midstream logistical services and distribute hydrocarbon products and by-products primarily to customers who are located in this region or in close proximity to ports located along the Gulf of Mexico Intracoastal Waterway and the Mississippi River inland waterway system. The fertilizer and related products we manufacture are sold throughout the United States.

For the year ended December 31, 2002 and the nine months ended September 30, 2003, we had total revenues of approximately \$149.9 million and \$140.1 million, respectively, total operating income of approximately \$8.6 and \$7.4 million, respectively, and EBITDA of approximately \$16.3 million and \$13.3 million, respectively. On a pro forma as adjusted basis, for the year ended December 31, 2002 and the nine months ended September 30, 2003, we had total revenues of approximately \$171.2 million and

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\$156.6 million, respectively, total operating income of approximately \$12.9 and \$8.9 million, respectively, and EBITDA of approximately \$22.9 million and \$16.5 million, respectively.

Primary Lines of Business

Our primary business lines can be generally described as follows:

Marine Transportation Business. We own a marine fleet of 34 inland tank barges, 17 inland pushboats and two offshore tug/barge tanker units that transport hydrocarbon products and by-products. We provide these transportation services on a fee basis primarily under annual contracts. We recently acquired nine of our inland tank barges and four of our inland pushboats in connection with the closing of the Tesoro Marine asset acquisition described below in [Recent Developments](#) [Recent Acquisitions](#) [Tesoro Marine Asset Acquisition](#). For the year ended December 31, 2002 and the nine months ended September 30, 2003, our marine transportation business generated approximately 16% and 14%, respectively, of our total revenues and 40% and 45%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses). On a pro forma as adjusted basis, for the year ended December 31, 2002 and the nine months ended September 30, 2003, our marine transportation business generated approximately 17% and 15%, respectively, of our total revenues and 32% and 37%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses).

Terminalling Business. We own or operate 16 marine terminal facilities and two inland terminal facilities that provide storage and handling services for producers and suppliers of hydrocarbon products and by-products, lubricants and other liquids. We recently acquired 13 of our marine terminal facilities and one of our inland terminal facilities in connection with the closing of the Tesoro Marine asset acquisition. Please read [Recent Developments](#) [Recent Acquisitions](#) [Tesoro Marine Asset Acquisition](#). Following the acquisition of these terminals, we began providing land rental to oil and gas companies along with storage and handling services for lubricants and fuel oil. Also in connection with the closing of the Tesoro Marine asset acquisition, we began distributing and marketing lubricants primarily to the offshore exploration and production industry. For the year ended December 31, 2002 and the nine months ended September 30, 2003, our terminalling business generated approximately 3% and 4%, respectively, of our total revenues and 24% and 31%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses). On a pro forma as adjusted basis, for the year ended December 31, 2002 and the nine months ended September 30, 2003, our terminalling business generated approximately 13% and 11%, respectively, of our total revenues and 43% and 43%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses).

LPG Distribution Business. We purchase LPGs primarily from oil refiners and natural gas processors. We store LPGs in our supply and storage facilities for resale to propane retailers and industrial LPG users in Texas and the southeastern United States. We own three LPG supply and storage facilities with an aggregate storage capacity of approximately 132,000 gallons and we lease approximately 128 million gallons of underground storage capacity. We generally try to coordinate our sales and purchases of LPGs based on the same daily price index for LPGs in order to decrease the impact of LPG price volatility on our profitability. For the year ended December 31, 2002 and the nine months ended September 30, 2003, our LPG distribution business generated approximately 62% and 68%, respectively, of our total revenues and 23% and 16%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses). On a pro forma as adjusted basis, for the year ended December 31, 2002 and the nine months ended September 30, 2003, our LPG distribution business generated approximately 54% and 61%, respectively, of our total revenues and 16% and 13%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses).

Fertilizer Business. We manufacture and sell fertilizer products, which are primarily sulfur-based, and other sulfur-related products to regional wholesale distributors and industrial users. For the year

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ended December 31, 2002 and the nine months ended September 30, 2003, our fertilizer business generated approximately 19% and 14%, respectively, of our total revenues and 12% and 8%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses). On a pro forma as adjusted basis, for the year ended December 31, 2002 and the nine months ended September 30, 2003, our fertilizer business generated approximately 16% and 13%, respectively, of our total revenues and 9% and 7%, respectively, of our total operating income (excluding indirect selling, general and administrative expenses).

We receive a material portion of our net income and cash available for distribution to our unitholders from our unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P., a limited partnership formed by Martin Resource Management and CF Industries, Inc. in November 2000. This partnership collects and aggregates, transports, stores and markets molten sulfur supplied by oil refiners and natural gas processors. Martin Resource Management and CF Industries jointly control this partnership through equal ownership of its general partner. Martin Resource Management manages the day-to-day operations of CF Martin Sulphur, L.P. under a long-term services agreement. We account for this limited partner interest using the equity method of accounting, which requires us to report only the equity earnings from our limited partner interest. For the year ended December 31, 2002 and the nine months ended September 30, 2003, our equity in earnings of CF Martin Sulphur, L.P. constituted 42% and 28%, respectively, of our total net income before income taxes. On a pro forma as adjusted basis, for the year ended December 31, 2002 and the nine months ended September 30, 2003, our equity in earnings of CF Martin Sulphur, L.P. constituted 25% and 24%, respectively, of our total net income before income taxes.

Our principal executive offices are located at 4200 Stone Road, Kilgore, Texas 75662, and our phone number is (903) 983-6200.

Recent Developments

Recent Acquisitions

Tesoro Marine Asset Acquisition. In December 2003, we completed the acquisition of certain assets associated with Tesoro Marine Services, L.L.C.'s shore based marine activities for \$25.0 million plus approximately \$1.8 million for Tesoro Marine's lubricant inventories. The assets we acquired included 13 marine terminals and one inland terminal located along the Gulf Coast from Venice, Louisiana to Corpus Christi, Texas, nine inland tank barges and four inland pushboats, and Tesoro Marine's lubricant distribution and marketing business. We financed this acquisition through borrowings under our revolving credit facility. Tesoro Marine Services, L.L.C. is a subsidiary of Tesoro Petroleum Corporation, a refiner and marketer of petroleum products.

We believe that the acquisition of Tesoro Marine's terminals and lubricant distribution and marketing business further strengthened our presence and infrastructure in our core Gulf Coast market. We believe that with the addition of the Tesoro Marine assets, we are one of the largest operators of marine service terminals in the Gulf Coast region providing broad geographic coverage and distribution capability for our products and services.

In December 2003, in a parallel transaction, Midstream Fuel Service LLC, a wholly owned subsidiary of Martin Resource Management, the owner of our general partner, completed its acquisition of Tesoro Marine's fuel oil distribution business for approximately \$2.0 million plus approximately \$4.8 million for Tesoro Marine's diesel fuel inventories. Midstream Fuel, rather than us, acquired these assets from Tesoro Marine because fuel oil distribution generates non-qualifying income under Internal Revenue Service regulations applicable to publicly traded limited partnerships. However, following the closing of the marine asset acquisition and the fuel oil distribution acquisition, we entered into certain agreements with Martin Resource Management pursuant to which we provide marine transportation and terminalling services to Midstream Fuel and Midstream Fuel provides terminal services to us to handle lubricants, greases and drilling fluids.

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Cross Oil Terminal Acquisition. In October 2003, we acquired a marine terminal located on the Ouachita River in southern Arkansas from Cross Oil Refining & Marketing, Inc. for \$2.0 million. At the same time, we entered into a five year terminalling agreement with Cross, with two five year renewal terms, whereby Cross has the right to use the acquired terminal for the storage of crude oil and/or finished oil products. We also entered into a five year marine transportation agreement with Cross, with two five year renewal terms, whereby we agreed to provide two inland tank barges on a full time basis for the marine transportation of crude oil and finished oil products owned by Cross or owned by others that are in transit to Cross's refinery located in southern Arkansas.

In October 2003, in another separate transaction, we purchased an inland pushboat and two inland tank barges from a third party for \$1.0 million. We use these vessels to transport crude oil pursuant to the marine transportation agreement with Cross.

Other Developments

Increased Quarterly Distribution. We recently declared a cash distribution of \$0.525 per unit, payable on February 13, 2004 to common and subordinated unitholders of record as of the close of business on January 30, 2004. You will not be a holder of record entitled to receive this distribution. This distribution reflects an increase of \$0.025 per unit over the quarterly distributions we previously paid and is based on our current operating performance and the current general economic, industry and market conditions impacting us.

Bank Credit Facility Expansion. In December 2003, we amended our credit agreement and increased our existing credit facility from a total of \$60.0 million to \$80.0 million. Our term loan remained at \$25.0 million and our revolving credit facility increased from \$35.0 million to \$55.0 million. Our expanded revolving credit facility provides for a \$30.0 million acquisition line and a \$25.0 million working capital facility. We financed the Tesoro Marine asset acquisition through borrowings under our revolving credit facility. We intend to use the net proceeds of this offering to repay a portion of the borrowings outstanding under our revolving credit facility.

Summary of Risk Factors

An investment in our common units involves risks associated with our business, our partnership structure and the tax characteristics of common units. Please carefully read the risks relating to these matters described under Risk Factors.

Risks Relating to Our Business

We may not have sufficient cash after the establishment of cash reserves and payment of our general partner's expenses to enable us to pay the minimum quarterly distribution each quarter.

Adverse weather conditions could reduce our results of operations and ability to make distributions to our unitholders.

We receive a material portion of our net income and cash available for distribution from our unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P.

We may have to sell our interest, or buy the other partnership interests in CF Martin Sulphur, L.P. at a time when it may not be in our best interest to do so.

If CF Martin Sulphur, L.P. issues additional partnership interests, our ownership interest in this partnership could be diluted. Consequently, our share of CF Martin Sulphur, L.P.'s distributable cash could be reduced, which could adversely affect our ability to make distributions to our unitholders.

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If we incur material liabilities that are not fully covered by insurance, such as liabilities resulting from accidents on rivers or at sea, spills, fires or explosions, our results of operations and ability to make distributions to our unitholders could be adversely affected.

The price volatility of hydrocarbon products and by-products can reduce our results of operations and ability to make distributions to our unitholders.

Restrictions in our credit agreement may prevent us from making distributions to our unitholders.

If we do not have sufficient capital resources for acquisitions or opportunities for expansion, our growth will be limited.

Our recent and any future acquisitions may not be successful, may substantially increase our indebtedness and contingent liabilities, and may create integration difficulties.

Demand for our terminalling services is substantially dependent on the level of offshore oil and gas exploration, development and production activity.

Our LPG and fertilizer businesses are seasonal and could cause our revenues to vary.

The highly competitive nature of our industry could adversely affect our results of operations and ability to make distributions to our unitholders.

Our business is subject to federal, state and local laws and regulations relating to environmental, safety and other regulatory matters. The violation of or the cost of compliance with these laws and regulations could adversely affect our results of operations and ability to make distributions to our unitholders.

The loss or insufficient attention of key personnel could negatively impact our results of operations and ability to make distributions to our unitholders. Additionally, if neither Ruben Martin nor Scott Martin is the chief executive officer of our general partner, amounts we owe under our credit facility may become immediately due and payable.

Our loss of significant commercial relationships with Martin Resource Management could adversely impact our results of operations and ability to make distributions to our unitholders.

Our business would be adversely affected if operations at our transportation, terminalling and distribution facilities experienced significant interruptions. Our business would also be adversely affected if the operations of our customers or suppliers experienced significant interruptions.

Our marine transportation business would be adversely affected if we do not satisfy the requirements of the Jones Act, or if the Jones Act were modified or eliminated.

Our marine transportation business would be adversely affected if the United States government purchases or requisitions any of our vessels under the Merchant Marine Act.

Regulations affecting the domestic tank vessel industry may limit our ability to do business, increase our costs and adversely impact our results of operations and ability to make distributions to our unitholders.

Risks Relating to an Investment in the Common Units

Cost reimbursements due Martin Resource Management may be substantial and will reduce our cash available for distribution to our unitholders.

Martin Resource Management has conflicts of interests and limited fiduciary responsibilities, which may permit it to favor its own interests to the detriment of our unitholders.

Unitholders have less power to elect or remove management of our general partner than holders of common stock in a corporation. At the closing of this offering, common unitholders will not have

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sufficient voting power to elect or remove our general partner without the consent of Martin Resource Management.

Our general partner's discretion in determining the level of our cash reserves may adversely affect our ability to make cash distributions to our unitholders.

You may not have limited liability if a court finds we have not complied with applicable statutes or that unitholder action constitutes control of our business.

Our partnership agreement contains provisions that reduce the remedies available to unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner.

We may issue additional common units without your approval, which would dilute your ownership interest.

The control of our general partner may be transferred to a third party, and that party could replace our current management team, without unitholder consent. Additionally, if Martin Resource Management no longer controls our general partner, amounts we owe under our credit facility may become immediately due and payable.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

Martin Resource Management and its affiliates may engage in limited competition with us.

Our common units have a limited trading history and a limited trading volume compared to other publicly traded securities.

Tax Risks

The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to unitholders.

A successful IRS contest of the federal income tax positions we take may adversely affect the market for our common units and the costs of any contest will be borne by our unitholders and our general partner.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

Tax gain or loss on the disposition of our common units could be different than expected.

Changes in federal income tax law could affect the value of our common units.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

We treat a purchaser of our common units as having the same tax benefits without regard to the seller's identity. The IRS may challenge this treatment, which could adversely affect the value of the common units.

You may be subject to state, local and foreign taxes and return filing requirements as a result of investing in our common units.

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Business Strategy

We intend to continue to manage our operations to enable us to pay at least the minimum quarterly distribution on all of our units, to increase our per unit cash flow and to increase the overall value of our assets on a per unit basis. We are pursuing these objectives by:

Expanding services to existing customers by evaluating their needs and identifying additional services that we could provide utilizing our asset base.

Pursuing strategic acquisitions that strengthen or complement our existing operations and services.

Attracting new customers in our existing markets to expand and increase utilization of our assets.

Expanding into new geographic markets in which our expertise would allow us to achieve desirable returns relative to new capital invested.

Establishing additional long-term strategic alliances with significant customers to achieve operational synergies.

Competitive Strengths

We believe we are well positioned to execute our business strategy because of the following competitive strengths:

We operate a diversified asset base and integrated distribution network.

We operate a large number of strategically located marine terminals in the Gulf Coast region.

We own specialized transportation equipment and terminal facilities.

The experience and operational expertise of our management team.

We believe we have a strong industry reputation and established relationships with suppliers and customers.

Upon the closing of this offering, we believe we will have financial flexibility as a result of our available borrowing capacity under our revolving credit facility combined with our ability to access the capital markets.

Our Relationship with Martin Resource Management

We were formed by Martin Resource Management, a privately-held company whose initial predecessor was incorporated in 1951 as a supplier of products and services to drilling rig contractors. Since then, Martin Resource Management has expanded its operations through acquisitions and internal expansion initiatives as its management identified and capitalized on the needs of producers and purchasers of hydrocarbon products and by-products and other bulk liquids.

We are and will continue to be closely affiliated with Martin Resource Management as result of the following relationships:

Ownership. Martin Resource Management currently owns an approximate 58.3% limited partner interest in us and will own, upon completion of this offering an approximate 50.2% limited partner interest in us. Additionally, our general partner, a wholly-owned subsidiary of Martin Resource Management, owns a 2.0% general partner interest in us and owns our incentive distribution rights.

Management. Martin Resource Management directs our business operations through its ownership and control of our general partner. We benefit from our relationship with Martin Resource Management through access to a significant pool of management expertise and established relationships throughout the energy industry. We do not have employees. Martin Resource Management employees are responsible for conducting our business and operating our assets on our

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behalf. Under the omnibus agreement with Martin Resource Management, we are required to reimburse Martin Resource Management for all direct and indirect expenses it incurs or payments it makes on our behalf or in connection with the operation of our business. There is no monetary limitation on the amount we are required to reimburse Martin Resource Management for direct expenses. The amount we are required to reimburse Martin Resource Management for indirect general and administrative expenses and corporate overhead allocated to us is currently capped at \$2.0 million for the year ending October 31, 2004. This cap may increase in each of the three subsequent years. Martin Resource Management also licenses certain of its trademarks and tradenames to us under this omnibus agreement.

Commercial. Martin Resource Management has been and we anticipate will continue to be an important supplier and customer of ours. We purchase ground transportation services, underground storage services, terminal throughput services, LPG products and sulfuric acid from Martin Resource Management. These purchases from Martin Resource Management would have accounted for approximately 7%, 6% and 8% of our total cost of products sold in 2000, 2001 and 2002, respectively. In addition, we purchase marine fuel from Martin Resource Management, which we account for as an operating expense. As described below, in connection with the closing of the Tesoro Marine asset acquisition, Martin Resource Management will provide additional terminal services to us. Conversely, we provide marine transportation, terminalling services, fertilizer supply and LPG distribution services to Martin Resource Management. These sales to Martin Resource Management would have accounted for approximately 4%, 4% and 5% of our total revenues in 2000, 2001, and 2002, respectively. As described below, in connection with the closing of the Tesoro Marine acquisition, we will provide additional marine transportation and terminalling services to Martin Resource Management. Regarding services and products we purchase from Martin Resource Management, we:

obtain ground transportation services from Martin Resource Management under a motor carrier agreement that has an initial term that expires in October 2005;

lease underground storage for LPGs from Martin Resource Management under a storage lease that has an initial term that expires in October 2005;

purchase marine fuel and sulfuric acid from Martin Resource Management under separate agreements each of which has an initial terms that expire in October 2005; and

obtain use of a LPG truck loading and unloading and pipeline distribution terminal from Martin Resource Management under a throughput agreement that has an initial term that expires in October 2005.

Regarding services Martin Resource Management purchases from us, we provide:

terminalling services to Martin Resource Management under a terminal services agreement that has an initial term that expires in October 2005; and

marine transportation services to Martin Resource Management under a marine transportation agreement that has an initial term that expires in October 2005.

We entered into additional agreements with Martin Resource Management in connection with the closing of the Tesoro Marine asset acquisition whereby:

we provide terminalling services to Martin Resource Management under a terminal services agreement that has an initial term that expires in December 2006;

we provide marine transportation services to Martin Resource Management under a transportation services agreement that has an initial term that expires in December 2006; and

Martin Resource Management provides terminal services to us under a lubricants and drilling fluids terminal services agreement that has an initial term that expires in December 2006.

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Subject to limitations set forth in the omnibus agreement, Martin Resource Management has agreed to not compete against us in our primary business lines for so long as it controls our general partner. Please read [Certain Relationships and Related Transactions](#) [Agreements Omnibus Agreement](#) for a further discussion of the scope and limitations of this non-competition restriction. Please also read [Business](#) [Our Relationship with Martin Resource Management](#) for a further discussion of our relationship with Martin Resource Management.

While our relationship with Martin Resource Management is a significant benefit, it is also a source of potential conflicts. Please read [Conflicts of Interest and Fiduciary Responsibilities](#).

Partnership Structure and Management

All of our operations are conducted through, and our operating assets are owned by, our operating partnership, Martin Operating Partnership L.P. Upon the closing of this offering, our ownership structure will be as follows:

Our common unitholders will own 4,050,000 common units representing an approximate 47.8% limited partner interest in us;

Martin Resource Management will own 4,253,362 subordinated units representing an approximate 50.2% limited partner interest in us;

Martin Midstream GP LLC, our general partner, will own a 2.0% general partner interest in us;

we will own all of the limited partner interests in our operating partnership; and

we will own all of the membership interests in the general partner of our operating partnership.

Our general partner is entitled to distributions on its general partner interest and to distributions, if any, on its incentive distribution rights. Our general partner has sole responsibility for conducting our business and for managing our operations. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but is entitled to be reimbursed for all direct and, subject to some limitations, indirect expenses incurred on our behalf. Please read [Certain Relationships and Related Transactions](#) [Agreements Omnibus Agreement](#).

We also own an unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P., a limited partnership formed by Martin Resource Management and CF Industries in November 2000. We do not own any interest in CF Industries. The chart on the following page depicts the organization and ownership of Martin Midstream Partners L.P., our operating partnership, and CF Martin Sulphur, L.P. after giving effect to this offering.

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The Offering

Common units offered to the public	1,150,000 common units. 1,322,500 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	4,050,000 common units and 4,253,362 subordinated units, representing a 47.8% and 50.2% limited partner interest in us, respectively.
Use of proceeds	We intend to use all of the net proceeds of this offering to repay a portion of the borrowings under our revolving credit facility that have been incurred in connection with recent acquisitions. Please read Use of Proceeds.
Cash distributions	Common units are entitled to minimum quarterly distributions of \$0.50 per common unit to the extent we have sufficient cash from operations after the establishment of cash reserves and payment of expenses, including payments to our general partner. In general, we will pay any cash distributions we make each quarter in the following manner: first, 98% to the common units and 2% to our general partner, until each common unit has received a minimum quarterly distribution of \$0.50 plus any arrearages from prior quarters; second, 98% to the subordinated units and 2% to our general partner, until each subordinated unit has received a minimum quarterly distribution of \$0.50; and third, 98% to all units, pro rata, and 2% to our general partner until each unit has received a distribution of \$0.55 for such quarter. If cash distributions exceed \$0.55 per unit in a quarter, our general partner will receive increasing percentages, up to 50%, of the cash we distribute in excess of that amount. We refer to these distributions as incentive distributions. We must distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner. We refer to this cash as available cash, and we define its meaning in our partnership agreement and in the glossary in Appendix A. The amount of available cash may be greater than or less than the minimum quarterly distribution. Please read Cash Available for Distribution.
Subordination period	The subordination period will end once we meet the financial tests in our partnership agreement, but it generally cannot end before September 30, 2009. When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages. Our partnership agreement provides that subordinated units may convert into common units prior to September 30, 2009 under certain circumstances. Please read Cash Distribution Policy

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	Subordination Period Early Conversion of Subordinated Units.
Issuance of additional units	In general, during the subordination period we can issue up to 1,500,000 additional common units without obtaining unitholder approval. We can also issue an unlimited number of common units for acquisitions, capital improvements or repayments of certain debt that increase cash flow from operations per unit on a pro forma basis. Please read The Partnership Agreement Issuance of Additional Securities.
Voting rights	Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. The general partner may not be removed except by a vote of the holders of at least 66 2/3% of the outstanding units, including any units owned by our general partner and its affiliates, including Martin Resource Management. At the closing of this offering, our general partner will continue to own enough units to prevent its removal. Furthermore, any units held by a person that owns 20% or more of any class of units then outstanding, other than the general partner, its affiliates, their transferees, and persons who acquired such units with the prior approval of the directors of the general partner, cannot vote on any matter.
Limited call right	If at any time our general partner and its affiliates, including Martin Resource Management, own 80% or more of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you hold the common units you purchase in this offering through December 31, 2007, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be approximately 20% of the cash distributed to you with respect to that period. Please read Material Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions for the basis of this estimate.
Material tax consequences	For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please read Material Tax Consequences.
Exchange listing	Our common units are quoted on the Nasdaq National Market under the symbol MMLP.
Underwriting	For a discussion of the underwriting arrangements with respect to the offering, please read Underwriting.

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Summary Historical and Pro Forma Financial Data

The following table shows summary historical and pro forma financial data of Martin Midstream Partners Predecessor and Martin Midstream Partners L.P. for the periods and as of the dates indicated. Martin Midstream Partners Predecessor is the term used to describe certain assets, liabilities and operations owned by Martin Resource Management that were transferred to us upon completion of our initial public offering in November 2002. Our four primary lines of business are:

marine transportation services for hydrocarbon products and by-products;

terminalling of hydrocarbon products and by-products;

distribution of LPGs; and

manufacturing and marketing fertilizer products, which are primarily sulfur-based, and other sulfur-related products.

The summary historical financial data as of December 31, 2000 and 2001, for the years ended December 31, 2000 and 2001 and for the period from January 1, 2002 to November 5, 2002 are derived from the audited combined financial statements of Martin Midstream Partners Predecessor. The summary historical financial data for the nine months ended September 30, 2002 are derived from the unaudited combined financial statements of Martin Midstream Partners Predecessor. The summary historical financial data as of December 31, 2002 and the period from November 6, 2002 to December 31, 2002 are derived from the audited consolidated financial statements of Martin Midstream Partners L.P. The unaudited historical financial data as of September 30, 2003 and for the nine months ended September 30, 2003 are derived from the unaudited consolidated financial statements of Martin Midstream Partners L.P.

The summary pro forma financial data reflect our consolidated historical operating results as adjusted for the Tesoro Marine asset acquisition, the borrowings under our revolving credit facility, this offering, the implementation of new contracts with Martin Resource Management and, in the case of the pro forma statement of operations for the year ended December 31, 2002, our initial public offering. The summary pro forma financial data is derived from the unaudited pro forma financial statements. The pro forma balance sheet data assumes the borrowing of \$27.0 million under our revolving credit facility and that this offering occurred on September 30, 2003. The pro forma statement of operations data assumes that the Tesoro Marine asset acquisition, the borrowings under our revolving credit facility, this offering, the implementation of new contracts with the Martin Resource Management and our initial public offering occurred on January 1, 2002. For a description of all of the assumptions used in preparing the summary pro forma financial data, you should read the notes to the pro forma financial statements included elsewhere in this prospectus. The pro forma financial data should not be considered as indicative of the historical results we would have had or the future results that we will have after the offering.

Our molten sulphur business operations were transferred to CF Martin Sulphur, L.P. in November 2000. Therefore, revenues, operating costs and operating income were reflected in the historical combined income statements prior to that time, and, subsequently, have been reflected through our unconsolidated non-controlling 49.5% limited partnership interest in CF Martin Sulphur, L.P. under the equity method of accounting.

We define EBITDA as net income plus interest expense, income taxes and depreciation and amortization expense. We use EBITDA as a supplemental financial measure to assess:

the ability of our assets to generate cash sufficient for us to pay interest costs and to make cash distributions to our unitholders;

the financial performance of our assets;

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our liquidity and performance over time, and in relation to other companies that own similar assets and that we believe calculate EBITDA in a manner similar to us; and

in certain situations, the appropriateness of the purchase price of assets or companies we might consider acquiring.

Although we use EBITDA to assess our ability to generate cash sufficient to pay interest costs and make cash distributions to our unitholders, the amount of cash available for distributions is subject to the reservation of cash for other uses, such as debt repayments, capital expenditures and operating activities.

We also understand that such data is used by investors to assess our historical ability to service our indebtedness and make cash distributions to unitholders. However, the term EBITDA is not defined under generally accepted accounting principles and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with generally accepted accounting principles. When assessing our operating performance or our liquidity, you should not consider this data in isolation or as a substitute for our net income, cash flow from operating activities or other cash flow data calculated in accordance with generally accepted accounting principles. In addition, our EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as we do.

You should note that our EBITDA and our net income includes our equity in the earnings of CF Martin Sulphur, L.P., in which we own a unconsolidated non-controlling 49.5% limited partnership interest. Under the equity method of accounting, we include in our earnings our proportionate share of CF Martin Sulphur, L.P.'s income or losses. However, the amount of our proportionate share of the earnings or losses of CF Martin Sulphur, L.P. may differ from the actual amount of cash, if any, that is distributed to us. As a result, the amount of our EBITDA in any particular period may be significantly higher or lower than the amount of cash we generate in that period.

For example, for the years ended December 31, 2001 and 2002, our EBITDA was \$16.9 million and \$16.3 million, respectively, and our equity in the earnings of CF Martin Sulphur, L.P. was \$1.6 million and \$3.4 million, respectively. However, we received cash distributions from CF Martin Sulphur, L.P. during the 2001 period of \$0.4 million and \$0.9 million during the 2002 period. For the nine-months ended September 30, 2002 and 2003, our EBITDA was \$11.3 million and \$13.3 million, respectively, and our equity in the earnings of CF Martin Sulphur, L.P. was \$2.5 million and \$2.3 million, respectively. We did not receive cash distributions from CF Martin Sulphur, L.P. during the 2002 period and received \$2.7 million during the 2003 period. Please read *Business* *CF Martin Sulphur, L.P.* *Management and Ownership Distributions* for more information related to cash distributions from this partnership.

Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of our assets and extend their useful lives. Expansion capital expenditures represent capital expenditures to expand the existing operating capacity of our assets, whether through construction or acquisition. Repair and maintenance expenditures associated with existing assets that are minor in nature and do not extend the useful life of existing assets are treated as operating expenses as incurred.

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We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical and pro forma combined and consolidated financial statements and the accompanying notes included elsewhere in this prospectus. The table should also be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Martin Midstream Partners Predecessor			Martin Midstream Partners	Martin Midstream Partners Predecessor	Martin Midstream Partners		
						Pro Forma As Adjusted		
	Year Ended December 31,		Period From January 1, 2002 Through November 5, 2002	Period From November 6, 2002 Through December 31, 2002	Nine Months Ended September 30, 2002		Year Ended December 31, 2002	Nine Months Ended September 30, 2003
	2000	2001				2003		
(In thousands)								
Income Statement Data:								
Revenues	\$ 199,813	\$ 163,118	\$ 116,160	\$ 33,746	\$ 101,342	\$ 140,098	\$ 171,174	\$ 156,610
Cost of product sold	150,063	119,767	84,072	26,436	72,667	109,695	116,467	114,161
Operating expenses	25,993	20,472	16,654	3,056	14,725	14,908	28,139	21,162
Selling, general, and administrative	7,880	7,513	5,767	857	4,953	4,576	6,928	4,786
Depreciation and amortization	6,413	4,122	3,741	747	3,356	3,515	6,739	5,203
Impairment								2,352(1)
Total costs and expenses	190,349	151,874	110,234	31,096	95,701	132,694	158,273	147,664
Operating income	9,464	11,244	5,926	2,650	5,641	7,404	12,901	8,946
Equity in earnings of unconsolidated entities	192	1,477	2,565	599	2,236	2,308	3,164	2,308
Interest expense	(7,949)	(5,390)	(3,283)	(345)	(2,976)	(1,442)	(2,227)	(1,622)
Other, net	70	82	42	5	36	68	47	68
Income before income taxes	1,777	7,413	5,250	2,909	4,937	8,338	13,885	9,700
Income taxes	847	2,735	1,959		1,818			
Net income	\$ 930	\$ 4,678	\$ 3,291	\$ 2,909	\$ 3,119	\$ 8,338	\$ 13,885	\$ 9,700
Balance Sheet Data (At Period End):								
Total assets	\$ 102,384	\$ 88,953		\$ 100,455	\$ 95,368	\$ 103,274		\$ 130,274
Due to affiliates	39,096	36,796			34,795	770		770
Long-term debt	10,691	7,845		35,000	7,168	35,000		30,828
Owner's equity (partners capital)	14,080	18,758		47,106	21,877	45,898		77,070
Cash Flow Data:								
Net cash flow provided by (used in):								
Operating activities	\$ 1,621	\$ 11,144	\$ 316	\$ 4,824	\$ 4,579	\$ 12,441		
Investing activities	(3,084)	(6,809)	(1,962)	(2,116)	(1,875)	1,327		
Financing activities	1,421	(4,400)	6,897	(6,287)	(2,641)	(9,546)		
Other Financial Data:								
EBITDA	\$ 16,139	\$ 16,925	\$ 12,274	\$ 4,001	\$ 11,269	\$ 13,295	\$ 22,851	\$ 16,525(2)
Maintenance capital expenditures	\$ 1,934	\$ 2,465	\$ 394	\$ 157	\$ 307	\$ 1,215		

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Expansion capital expenditures	2,010	3,764	1,909	2,850	1,909	131
Total capital expenditures	\$ 3,944	\$ 6,229	\$ 2,303	\$ 3,007	\$ 2,216	\$ 1,346

- (1) This represents a pre-acquisition non-cash impairment charge taken by the seller against certain assets acquired by us in the Tesoro Marine asset acquisition based on the fair value of such assets as reflected in the purchase price we paid, relative to the historic book value thereof.
- (2) Pro forma as adjusted EBITDA for the nine months ended September 30, 2003 includes the effect of the impairment charge described in note (1) above.

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Non-GAAP Financial Measure

We define EBITDA as net income plus interest expense, income taxes and depreciation and amortization expense. We use EBITDA as a supplemental financial measure to assess:

the ability of our assets to generate cash sufficient for us to pay interest costs and to make cash distributions to our unitholders;

the financial performance of our assets;

our liquidity and performance over time, and in relation to other companies that own similar assets and that we believe calculate EBITDA in a manner similar to us; and

in certain situations, the appropriateness of the purchase price of assets or companies we might consider acquiring.

We also understand that such data is used by investors to assess our historical ability to service our indebtedness and make cash distributions to unitholders. However, the term EBITDA is not defined under generally accepted accounting principles and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with generally accepted accounting principles. When assessing our operating performance or our liquidity, you should not consider this data in isolation or as a substitute for our net income, cash flow from operating activities or other cash flow data calculated in accordance with generally accepted accounting principles. In addition, our EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as we do.

The following table reconciles our EBITDA to our net income:

	Martin Midstream Partners Predecessor		Martin Midstream Partners	Martin Midstream Partners Predecessor	Martin Midstream Partners			
					Pro Forma As Adjusted			
	Year Ended		Period From	Period From	Nine Months Ended			
	December 31,		January 1, 2002 Through November 5, 2002	November 6, 2002 Through December 31, 2002	September 30,	Year Ended	Nine Months	
						December 31,	Ended	
	2000	2001	2002	2002	2002	2003	2002	2003
(In thousands)								
EBITDA Reconciliation:								
Net income	\$ 930	\$ 4,678	\$ 3,291	\$2,909	\$ 3,119	\$ 8,338	\$ 13,885	\$ 9,700
Plus:								
Depreciation and amortization	6,413	4,122	3,741	747	3,356	3,515	6,739	5,203
Interest expense	7,949	5,390	3,283	345	2,976	1,442	2,227	1,622
Income Taxes	847	2,735	1,959		1,818			
EBITDA	\$ 16,139	\$ 16,925	\$ 12,274	\$ 4,001	\$ 11,269	\$ 13,295	\$ 22,851	\$ 16,525(1)

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Summary of Conflicts of Interest and Fiduciary Responsibilities

Martin Midstream GP LLC, our general partner, has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. Because our general partner is owned by Martin Resource Management, however, its officers and directors have fiduciary duties to manage the business of our general partner in a manner beneficial to Martin Resource Management and its shareholders.

The officers and directors of our general partner have significant relationships with, and responsibilities to, Martin Resource Management. As a result of these relationships, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and Martin Resource Management, on the other hand. For a more detailed description of the conflicts of interest and fiduciary responsibilities of our general partner, please read Conflicts of Interest and Fiduciary Responsibilities.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute breaches of our general partner's fiduciary duty. By purchasing a common unit, you are treated as having consented to various actions contemplated in our partnership agreement and conflicts of interest that, without such consent, might otherwise be considered a breach of fiduciary or other duties under applicable state law.

We are a party to an agreement with Martin Resource Management under which Martin Resource Management generally agreed not to engage in our businesses as described in this prospectus. In addition, this agreement:

addresses indemnification obligations of Martin Resource Management to us;

requires us to reimburse Martin Resource Management for direct and indirect general and administrative expenses (subject to a cap on the reimbursement of indirect general and administrative expenses and corporate overhead allocations);

prohibits us from entering into certain agreements with Martin Resource Management without the approval of the conflicts committee of the board of directors of our general partner;

provides for the license of intellectual property from Martin Resource Management to us; and

addresses certain rights Martin Resource Management has in relation to the management of, and our interest in, CF Martin Sulphur, L.P.

For a more detailed discussion of this agreement, please read Certain Relationships and Related Transactions Agreements Omnibus Agreement.

We receive a material portion of our net income and cash available for distribution from our unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P., a limited partnership created in November 2000 by Martin Resource Management and CF Industries. CF Industries owns the other 49.5% limited partner interest in CF Martin Sulphur, L.P. CF Martin Sulphur, L.P. is managed by its general partner, CF Martin Sulphur, L.L.C., which is owned equally by CF Industries and Martin Resource Management.

Each of Martin Resource Management and CF Industries is entitled to elect two managers to the four-person board of managers of the general partner of CF Martin Sulphur, L.P. and, as a result of this ownership and management structure, neither Martin Resource Management nor CF Industries has individual control over CF Martin Sulphur, L.P. The general partner of CF Martin Sulphur, L.P. has fiduciary duties to act in the best interests of CF Martin Sulphur, L.P. and its limited partners. As a result, the general partner of CF Martin Sulphur, L.P. may make decisions that are in the best interests of CF Martin Sulphur, L.P. but that may not be in our best interest. These decisions may relate to, among other matters, cash distributions to us as a limited partner, capital expenditures, borrowings, issuance of new partnership securities and operations. For a more detailed discussion of the ownership and management structure of CF Martin Sulphur, L.P., please read Business CF Martin Sulphur, L.P. Management and Ownership.

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a business similar to ours. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units. If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and you could lose all or part of your investment.

Risks Relating to Our Business

We may not have sufficient cash after the establishment of cash reserves and payment of our general partner's expenses to enable us to pay the minimum quarterly distribution each quarter.

On a pro forma basis for 2002, determined by reference to the historical combined results of operations for Martin Midstream Partners Predecessor and applying pro forma adjustments to the historical results of operations of Martin Midstream Partners Predecessor to give effect to the transactions that occurred in connection with our initial public offering in November 2002, our available cash from operating surplus would have been insufficient in 2002 to pay the minimum quarterly distribution on all our units. We may not have sufficient available cash each quarter in the future to pay the minimum quarterly distribution on all our units. Under the terms of our partnership agreement, we must pay our general partner's expenses and set aside any cash reserve amounts before making a distribution to our unitholders. The amount of cash we can distribute on our common units principally depends upon the amount of net cash generated from our operations, which will fluctuate from quarter to quarter based on, among other things:

the costs of acquisitions, if any;

the prices of hydrocarbon products and by-products;

fluctuations in our working capital;

the level of capital expenditures we make;

restrictions contained in our debt instruments and our debt service requirements;

our ability to make working capital borrowings under our revolving credit facility; and

the amount, if any, of cash reserves established by our general partner in its discretion.

You should also be aware that the amount of cash we have available for distribution depends primarily on our cash flow, including cash flow from working capital borrowings, and not solely on profitability, which will be affected by non-cash items. In addition, our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and the establishment of reserves, each of which can affect the amount of cash available for distribution to our unitholders. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Adverse weather conditions could reduce our results of operations and ability to make distributions to our unitholders.

Our distribution network and operations are primarily concentrated in the Gulf Coast region and along the Mississippi River inland waterway. Weather in these regions is sometimes severe and can be a major factor in our day-to-day operations. Our marine transportation operations can be significantly delayed, impaired or postponed by adverse weather conditions, such as fog in the winter and spring months, and certain river conditions. Additionally, our marine transportation operations and our assets in the Gulf of Mexico, including our barges, pushboats, tugboats and terminals, can be adversely impacted or damaged

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by hurricanes, tropical storms, tidal waves or other related events. Demand for our lubricants and the diesel fuel we throughput in our terminalling segment can be affected if offshore drilling operations are disrupted by weather in the Gulf of Mexico.

National weather conditions have a substantial impact on the demand for our products. Unusually warm weather during the winter months can cause a significant decrease in the demand for LPG products, fuel oil and gasoline. Likewise, extreme weather conditions (either wet or dry) can decrease the demand for fertilizer. For example, an unusually wet spring can delay planting of seeds, which can leave insufficient time to apply fertilizer at the planting stage. Conversely, drought conditions can kill or severely stunt the growth of crops, thus eliminating the need to nurture plants with fertilizer. Any of these or similar conditions could result in a decline in our net income and cash flow, which would reduce our ability to make distributions to our unitholders.

We receive a material portion of our net income and cash available for distribution from our unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P.

We receive a material portion of our net income and cash available for distribution from our unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P. CF Industries owns the remaining 49.5% limited partner interest. We have virtually no rights or control over the operations or management of cash generated by this entity. CF Martin Sulphur, L.P. is managed by its general partner, which is owned equally by CF Industries and Martin Resource Management. Deadlocks between CF Industries and Martin Resource Management over issues relating to the operation of CF Martin Sulphur, L.P. could have an adverse impact on its results of operations and, consequently, the amount and timing of cash generated by its operations that is available for distribution to its partners, including us as a limited partner.

Additionally, the partnership agreement for CF Martin Sulphur, L.P. requires this entity to make cash distributions to its limited partners subject to the discretion of its general partner, other than in limited circumstances. As a result, we are substantially dependent upon the discretion of the general partner with respect to the amount and timing of cash distributions from this entity. If the general partner of CF Martin Sulphur, L.P. does not distribute the cash generated by its operations to its limited partners, as a result of a deadlock between CF Industries and Martin Resource Management or for any other reason, including operating difficulties or if CF Martin Sulphur, L.P. is unable to meet its debt service obligations, our cash flow and quarterly distributions would be reduced significantly.

We may have to sell our interest, or buy the other partnership interests in CF Martin Sulphur, L.P. at a time when it may not be in our best interest to do so.

The CF Martin Sulphur, L.P. partnership agreement contains a buy-sell mechanism that could be implemented by a partner under certain circumstances. As a result of this buy-sell mechanism, we could be forced to either sell our limited partner interest or buy the limited and general partner interests of CF Industries in CF Martin Sulphur, L.P. at a time when it may not be in our best interest to do so. In addition, we may not have sufficient cash or available borrowing capacity under our revolving credit facility to allow us to elect to purchase the limited and general partner interest of CF Industries, in which case we may be forced to sell our limited partner interest as a result of this buy-sell mechanism when we would otherwise prefer to keep this interest. Further, if CF Industries implements this buy-sell mechanism and we decide to use cash from operations or obtain financing to purchase CF Industries' interest in this partnership, we may not be able to make distributions to our unitholders. Conversely, if we are required to sell our interest in this partnership, we would lose our share of distributable income from its operations, our ability to make subsequent distributions to our unitholders could be adversely affected.

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If CF Martin Sulphur, L.P. issues additional partnership interests, our ownership interest in this partnership could be diluted. Consequently, our share of CF Martin Sulphur, L.P.'s distributable cash could be reduced, which could adversely affect our ability to make distributions to our unitholders.

CF Martin Sulphur, L.P. has the ability under its partnership agreement to issue additional general and limited partner interests. If CF Martin Sulphur, L.P. issues additional interests, our ownership percentage in CF Martin Sulphur, L.P., and our share of CF Martin Sulphur, L.P.'s distributable cash, may decrease. This decrease in our ownership interest could reduce the amount of cash distributions we receive from CF Martin Sulphur, L.P. and could adversely affect our ability to make distributions to our unitholders.

If we incur material liabilities that are not fully covered by insurance, such as liabilities resulting from accidents on rivers or at sea, spills, fires or explosions, our results of operations and ability to make distributions to our unitholders could be adversely affected.

Our operations are subject to the operating hazards and risks incidental to marine transportation, terminalling and the distribution of hydrocarbon products and by-products and other industrial products. These hazards and risks, many of which are beyond our control, include:

accidents on rivers or at sea and other hazards that could result in releases, spills and other environmental damages, personal injuries, loss of life and suspension of operations;

leakage of LPGs and other hydrocarbon products and by-products;

fires and explosions;

damage to transportation, terminalling and storage facilities, and surrounding properties caused by natural disasters; and

terrorist attacks or sabotage.

Our insurance coverage may not be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage, including various legal proceedings and litigation resulting from these hazards and risks. If we incur material liabilities that are not covered by insurance, our operating results, cash flow and ability to make distributions to our unitholders could be adversely affected.

Changes in the insurance markets attributable to the September 11, 2001 terrorist attacks, and their aftermath, may make some types of insurance more difficult or expensive for us to obtain. As a result of the September 11 attacks and the risk of future terrorist attacks, we may be unable to secure the levels and types of insurance we would otherwise have secured prior to September 11. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage.

The price volatility of hydrocarbon products and by-products can reduce our results of operations and ability to make distributions to our unitholders.

We and our affiliates purchase hydrocarbon products and by-products such as molten sulfur, sulfur derivatives, fuel oil, LPGs, asphalt and other bulk liquids and sell these products to wholesale and bulk customers and to other end users. Since the closing of the Tesoro Marine asset acquisition, we and our affiliates also distribute and market lubricants. We also generate revenues through the terminalling of certain products for third parties. The price and market value of hydrocarbon products and by-products can be volatile. Our revenues have been adversely affected by this volatility during periods of decreasing prices because of the reduction in the value and resale price of our inventory. Future price volatility could have an adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders.

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Restrictions in our credit agreement may prevent us from making distributions to our unitholders.

Upon the closing of this offering, we expect to have approximately \$33.8 million of indebtedness outstanding, composed of \$8.8 million of debt under our revolving credit facility and \$25.0 million of term debt. Our payment of principal and interest on our debt reduces the cash available for distribution to our unitholders. In addition, we are prohibited by our revolving credit facility from making cash distributions during an event of default or if the payment of a distribution would cause an event of default under any of our debt agreements. Our leverage and various limitations in our revolving credit facility may reduce our ability to incur additional debt, engage in some transactions and capitalize on acquisition or other business opportunities that could increase cash flows and distributions to our unitholders.

If we do not have sufficient capital resources for acquisitions or opportunities for expansion, our growth will be limited.

We intend to explore acquisition opportunities in order to expand our operations and increase our profitability. We may finance acquisitions through public and private financing, or we may use our limited partner interests for all or a portion of the consideration to be paid in acquisitions. Distributions of cash with respect to these equity securities or limited partner interests may reduce the amount of cash available for distribution to the common units. In addition, in the event our limited partner interests do not maintain a sufficient valuation, or potential acquisition candidates are unwilling to accept our limited partner interests as all or part of the consideration, we may be required to use our cash resources, if available, or rely on other financing arrangements to pursue acquisitions. If we use funds from operations, other cash resources or increased borrowings for an acquisition, the acquisition could adversely impact our ability to make our minimum quarterly distributions to our unitholders. Additionally, if we do not have sufficient capital resources or are not able to obtain financing on terms acceptable to us for acquisitions, our ability to implement our growth strategies may be adversely impacted.

Our recent and any future acquisitions may not be successful, may substantially increase our indebtedness and contingent liabilities, and may create integration difficulties.

As part of our business strategy, we intend to acquire businesses or assets we believe complement our existing operations. We may not be able to successfully integrate recent or any future acquisitions into our existing operations or achieve the desired profitability from such acquisitions. These acquisitions may require substantial capital expenditures and the incurrence of additional indebtedness. If we make acquisitions, our capitalization and results of operations may change significantly. Further, any acquisition could result in:

post-closing discovery of material undisclosed liabilities of the acquired business or assets;

the unexpected loss of key employees or customers from the acquired businesses;

difficulties resulting from our integration of the operations, systems and management of the acquired business; and

an unexpected diversion of our management's attention from other operations.

If recent or any future acquisitions are unsuccessful or result in unanticipated events or if we are unable to successfully integrate acquisitions into our existing operations, such acquisitions could adversely affect our results of operations, cash flow and ability to make distributions to our unitholders.

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Demand for our terminalling services is substantially dependent on the level of offshore oil and gas exploration, development and production activity.

The level of offshore oil and gas exploration, development and production activity has historically been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors that are beyond our control, including:

prevailing oil and natural gas prices and expectations about future prices and price volatility;

the cost of offshore exploration for, and production and transportation of, oil and natural gas;

worldwide demand for oil and natural gas;

consolidation of oil and gas and oil service companies operating offshore;

availability and rate of discovery of new oil and natural gas reserves in offshore areas;

local and international political and economic conditions and policies;

technological advances affecting energy production and consumption;

weather conditions;

environmental regulation; and

the ability of oil and gas companies to generate or otherwise obtain funds for exploration and production.

We expect levels of offshore oil and gas exploration, development and production activity to continue to be volatile and affect demand for our terminalling services.

Our LPG and fertilizer businesses are seasonal and could cause our revenues to vary.

The demand for LPG is highest in the winter. Therefore, revenue from our LPG distribution business is higher in the winter than in other seasons. Our fertilizer business experiences an increase in demand during the spring, which increases the revenue generated by this business line in this period compared to other periods. The seasonality of the revenue from these business lines may cause our results of operations to vary on a quarter to quarter basis and thus could cause our cash available for quarterly distributions to fluctuate from period to period.

The highly competitive nature of our industry could adversely affect our results of operations and ability to make distributions to our unitholders.

We operate in a highly competitive marketplace in each of our primary business segments. Most of our competitors in each segment are larger companies with greater financial and other resources than we possess. We may lose customers and future business opportunities to our competitors and any such losses could adversely affect our results of operations and ability to make distributions to our unitholders.

Our business is subject to federal, state and local laws and regulations relating to environmental, safety and other regulatory matters. The violation of or the cost of compliance with these laws and regulations could adversely affect our results of operations and ability to make distributions to our unitholders.

Our business is subject to a wide range of environmental, safety and other regulatory laws and regulations. For example, our operations are subject to permit requirements and increasingly stringent regulations under numerous environmental laws, such as the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and similar state and local laws. Our costs could increase due to more strict pollution control requirements or liabilities resulting from compliance with future required operating or other regulatory permits. New environmental regulations might adversely impact our results of operations and ability to pay distributions to our unitholders. Federal and state agencies also

could impose

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additional safety requirements, any of which could adversely affect our results of operations and ability to make distributions to our unitholders.

The loss or insufficient attention of key personnel could negatively impact our results of operations and ability to make distributions to our unitholders. Additionally, if neither Ruben Martin nor Scott Martin is the chief executive officer of our general partner, amounts we owe under our credit facility may become immediately due and payable.

Our success is largely dependent upon the continued services of members of the senior management team of Martin Resource Management. Those senior executive officers have significant experience in our businesses and have developed strong relationships with a broad range of industry participants. The loss of any of these executives could have a material adverse effect on our relationships with these industry participants, our results of operations and our ability to make distributions to our unitholders. Additionally, if neither Ruben Martin nor Scott Martin is the chief executive officer of our general partner, the lender under our credit facility could declare amounts outstanding thereunder immediately due and payable. If such event occurs, our results of operations and our ability to make distribution to our unitholders could be negatively impacted.

We do not have employees. We rely solely on officers and employees of Martin Resource Management to operate and manage our business. Martin Resource Management operates businesses and conducts activities of its own in which we have no economic interest. There could be competition for the time and effort of the officers and employees who provide services to our general partner. If these officers and employees do not or cannot devote sufficient attention to the management and operation of our business, our results of operation and ability to make distributions to our unitholders may be reduced.

Our loss of significant commercial relationships with Martin Resource Management could adversely impact our results of operations and ability to make distributions to our unitholders.

Martin Resource Management provides us with various services and products pursuant to various commercial contracts. The loss of any of these services provided by Martin Resource Management could have a material adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders. Additionally, we provide marine transportation and terminalling services to Martin Resource Management to support its businesses under various commercial contracts. The loss of Martin Resource Management as a customer could have a material adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders.

Our business would be adversely affected if operations at our transportation, terminalling and distribution facilities experienced significant interruptions. Our business would also be adversely affected if the operations of our customers and suppliers experienced significant interruptions.

Our operations are dependent upon our terminalling and storage facilities and various means of transportation. We are also dependent upon the uninterrupted operations of certain facilities owned or operated by our suppliers and customers. Any significant interruption at these facilities or inability to transport products to or from these facilities or to or from our customers for any reason would adversely affect our results of operations, cash flow and ability to make distributions to our unitholders. Operations at our facilities and at the facilities owned or operated by our suppliers and customers could be partially or completely shut down, temporarily or permanently, as the result of any number of circumstances that are not within our control, such as:

catastrophic events;

environmental remediations;

labor difficulties; and

disruptions in the supply of our products to our facilities or means of transportation.

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Additionally, terrorist attacks and acts of sabotage could target oil and gas production facilities, refineries, processing plants, terminals and other infrastructure facilities. Any significant interruptions at our facilities, facilities owned or operated by our suppliers or customers, or in the oil and gas industry as a whole caused by such attacks or acts could have a material adverse affect on our results of operations, cash flow and ability to make distributions to our unitholders.

Our marine transportation business would be adversely affected if we do not satisfy the requirements of the Jones Act, or if the Jones Act were modified or eliminated.

The Jones Act is a federal law that restricts domestic marine transportation in the United States to vessels built and registered in the United States. Furthermore, the Jones Act requires that the vessels be manned and owned by United States citizens. If we fail to comply with these requirements, our vessels lose their eligibility to engage in coastwise trade within United States domestic waters.

The requirements that our vessels be United States built and manned by United States citizens, the crewing requirements and material requirements of the Coast Guard and the application of United States labor and tax laws significantly increase the costs of United States flag vessels when compared with foreign flag vessels. During the past several years, certain interest groups have lobbied Congress to repeal the Jones Act to facilitate foreign flag competition for trades and cargoes reserved for United States flag vessels under the Jones Act and cargo preference laws. If the Jones Act were to be modified to permit foreign competition that would not be subject to the same United States government imposed costs, we may need to lower the prices we charge for our services in order to compete with foreign competitors, which would adversely affect our cash flow and ability to make distributions to our unitholders.

Our marine transportation business would be adversely affected if the United States Government purchases or requisitions any of our vessels under the Merchant Marine Act.

We are subject to the Merchant Marine Act of 1936, which provides that, upon proclamation by the President of the United States of a national emergency or a threat to the national security, the United States Secretary of Transportation may requisition or purchase any vessel or other watercraft owned by United States citizens (including us, provided that we are considered a United States citizen for this purpose.) If one of our pushboats, tugboats or tank barges were purchased or requisitioned by the United States government under this law, we would be entitled to be paid the fair market value of the vessel in the case of a purchase or, in the case of a requisition, the fair market value of charter hire. However, if one of our pushboats or tugboats is requisitioned or purchased and its associated tank barge is left idle, we would not be entitled to receive any compensation for the lost revenues resulting from the idled barge. We also would not be entitled to be compensated for any consequential damages we suffer as a result of the requisition or purchase of any of our pushboats, tugboats or tank barges. If any of our vessels are purchased or requisitioned for an extended period of time by the United States government, such transactions could have a material adverse affect on our results of operations, cash flow and ability to make distributions to our unitholders.

Regulations affecting the domestic tank vessel industry may limit our ability to do business, increase our costs and adversely impact our results of operations and ability to make distributions to our unitholders.

The U.S. Oil Pollution Act of 1990, or OPA 90, provides for the phase out of single-hull vessels and the phase-in of the exclusive operation of double-hull tank vessels in U.S. waters. Under OPA 90, substantially all tank vessels that do not have double hulls will be phased out by 2015 and will not be permitted to come to U.S. ports or trade in U.S. waters. The phase out dates vary based on the age of the vessel and other factors. All of our offshore tank barges are double-hull vessels and have no phase out date. We have 13 inland single-hull barges that will be phased out in the year 2015. The phase out of these single-hull vessels in accordance with OPA 90 may require us to make substantial capital expenditures, which could adversely affect our operations and market position and reduce our cash available for distribution.

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Risks Relating to an Investment in the Common Units

Cost reimbursements due to Martin Resource Management may be substantial and will reduce our cash available for distribution to our unitholders.

Under our omnibus agreement with Martin Resource Management, Martin Resource Management provides us with corporate staff and support services on behalf of our general partner that are substantially identical in nature and quality to the services it conducted for our business prior to our formation. The omnibus agreement requires us to reimburse Martin Resource Management for the costs and expenses it incurs in rendering these services, including an overhead allocation to us of Martin Resource Management's indirect general and administrative expenses from its corporate allocation pool. These payments may be substantial. Payments to Martin Resource Management will reduce the amount of available cash for distribution to our unitholders.

Martin Resource Management has conflicts of interest and limited fiduciary responsibilities, which may permit it to favor its own interests to the detriment of our unitholders.

Martin Resource Management currently owns an approximate 58.3% limited partner interest in us (50.2% limited partner interest after giving effect to this offering) and owns and controls our general partner, which owns a 2.0% general partner interest and incentive distribution rights in us. Conflicts of interest may arise between Martin Resource Management and our general partner, on the one hand, and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of Martin Resource Management over the interests of our unitholders. Potential conflicts of interest between us, Martin Resource Management and our general partner could occur in many of our day-to-day operations including, among others, the following situations:

Officers of Martin Resource Management who provide services to us also devote significant time to the businesses of Martin Resource Management and are compensated by Martin Resource Management for that time.

We own an unconsolidated non-controlling 49.5% limited partnership interest in CF Martin Sulphur, L.P., which operates a business involving the acquisition, handling and sale of molten sulfur. As a limited partner, we have virtually no rights or control over the operation and management of this entity. The day-to-day operation and control of this partnership is managed by its general partner, CF Martin Sulphur, L.L.C., which is owned equally by CF Industries and Martin Resource Management. Because we have very limited control over the operations and management of CF Martin Sulphur, L.P., we are subject to the risks that this business may be operated in a manner that would not be in our interest. For example, the amount of cash distributed to us from CF Martin Sulphur, L.P. could decrease if it uses a significant amount of cash from operations or additional debt to make significant capital expenditures or acquisitions.

Neither our partnership agreement nor any other agreement requires Martin Resource Management to pursue a business strategy that favors us or utilizes our assets or services. Martin Resource Management's directors and officers have a fiduciary duty to make these decisions in the best interests of the shareholders of Martin Resource Management without regard to the best interests of the common unitholders.

Martin Resource Management may engage in limited competition with us.

Our general partner is allowed to take into account the interests of parties other than us, such as Martin Resource Management, in resolving conflicts of interest, which has the effect of reducing its fiduciary duty to our unitholders.

Under our partnership agreement, our general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to our unitholders for actions that, without the limitations and reductions, might constitute breaches of fiduciary duty. As a result of purchasing units, you will be treated as having consented to some actions and conflicts of interest that, without

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such consent, might otherwise constitute a breach of fiduciary or other duties under applicable state law.

Our general partner determines which costs incurred by Martin Resource Management are reimbursable by us.

Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or from entering into additional contractual arrangements with any of these entities on our behalf.

Our general partner controls the enforcement of obligations owed to us by Martin Resource Management.

Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.

In some instances, our general partner may cause us to borrow funds to permit us to pay cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period.

Our general partner has broad discretion to establish financial reserves for the proper conduct of our business. These reserves also will affect the amount of cash available for distribution. Our general partner may establish reserves for distribution on the subordinated units, but only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters.

Please read Certain Relationships and Related Transactions Agreements Omnibus Agreement and Conflicts of Interest and Fiduciary Responsibilities Conflicts of Interest.

Unitholders have less power to elect or remove management of our general partner than holders of common stock in a corporation. At the closing of this offering, common unitholders will not have sufficient voting power to elect or remove our general partner without the consent of Martin Resource Management.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and therefore limited ability to influence management's decisions regarding our business. Unitholders did not elect our general partner or its directors and will have no right to elect our general partner or its directors on an annual or other continuing basis. Martin Resource Management elects the directors of our general partner. Although our general partner has a fiduciary duty to manage our partnership in a manner beneficial to us and our unitholders, the directors of our general partner also have a fiduciary duty to manage our general partner in a manner beneficial to Martin Resource Management and its shareholders.

If unitholders are dissatisfied with the performance of our general partner, they will have a limited ability to remove our general partner. Our general partner generally may not be removed except upon the vote of the holders of at least 66 2/3% of the outstanding units voting together as a single class. Because our general partner and its affiliates, including Martin Resource Management, will control approximately 51.2% of all the limited partner units after this offering, our general partner initially cannot be removed without the consent of it and its affiliates.

If our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of removal, all remaining subordinated units will automatically be converted into common units and any existing arrearages on the common units will be extinguished. A removal under these circumstances would adversely affect the common units by prematurely eliminating their contractual right to distributions and liquidation preference over the subordinated units, which preferences would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent

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jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of our business, so the removal of our general partner because of the unitholders' dissatisfaction with our general partner's performance in managing our partnership will most likely result in the termination of the subordination period.

Unitholders' voting rights are further restricted by our partnership agreement provision prohibiting any units held by a person owning 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of our general partner's directors, from voting on any matter. In addition, our partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

As a result of these provisions, it will be more difficult for a third party to acquire our partnership without first negotiating the acquisition with our general partner. Consequently, it is unlikely the trading price of our common units will ever reflect a takeover premium.

Our general partner's discretion in determining the level of our cash reserves may adversely affect our ability to make cash distributions to our unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves it determines in its reasonable discretion to be necessary to fund our future operating expenditures. In addition, our partnership agreement permits our general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to our unitholders.

You may not have limited liability if a court finds that we have not complied with applicable statutes or that unitholder action constitutes control of our business.

The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some states. The holder of one of our common units could be held liable in some circumstances for our obligations to the same extent as a general partner if a court determined that:

we had been conducting business in any state without compliance with the applicable limited partnership statute; or

the right or the exercise of the right by our unitholders as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted participation in the control of our business.

Our general partner generally has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. In addition, under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution. Please read "The Partnership Agreement - Limited Liability" for a discussion of the implications of the limitations on liability to a unitholder.

Our partnership agreement contains provisions that reduce the remedies available to unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for

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actions that would otherwise constitute breaches of our general partner's fiduciary duties. For example, our partnership agreement:

permits our general partner to make a number of decisions in its sole discretion. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;

provides that our general partner is entitled to make other decisions in its reasonable discretion which may reduce the obligations to which our general partner would otherwise be held;

generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the interests of all parties involved, including its own; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our general partner and those other persons acted in good faith.

If you choose to purchase a common unit, you will be treated as having consented to the various actions contemplated in our partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary duties under applicable state law. Please read Conflicts of Interest and Fiduciary Responsibilities. Fiduciary Responsibilities.

We may issue additional common units without your approval, which would dilute your ownership interest.

During the subordination period, our general partner, without the approval of our unitholders, may cause us to issue up to 1,500,000 additional common units. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without unitholder approval, in a number of circumstances such as:

the issuance of common units in connection with acquisitions that increase cash flow from operations on a pro forma, per unit basis;

the conversion of subordinated units into common units;

the conversion of units of equal rank with the common units into common units under some circumstances; or

the conversion of our general partner's general partner interest in us and its incentive distribution rights into common units as a result of the withdrawal of our general partner.

After the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Our partnership agreement does not give our unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

our unitholders' proportionate ownership interest in us will decrease;

the amount of cash available for distribution on a per unit basis may decrease;

because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;

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the relative voting strength of each previously outstanding unit will diminish; and

the market price of the common units may decline.

The control of our general partner may be transferred to a third party, and that party could replace our current management team, without unitholder consent. Additionally, if Martin Resource Management no longer controls our general partner, amounts we owe under our credit facility may become immediately due and payable.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in our partnership agreement on the ability of the owner of our general partner to transfer its ownership interest in our general partner to a third party. A new owner of our general partner could replace the directors and officers of our general partner with its own designees and to control the decisions taken by our general partner.

If, at any time, Martin Resource Management no longer controls our general partner, the lender under our credit facility may declare all amounts outstanding thereunder immediately due and payable. If such event occurs, we may be required to refinance our debt on unfavorable terms, which could negatively impact our results of operations and our ability to make distribution to our unitholders.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than the then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units. No provision in our partnership agreement, or in any other agreement we have with our general partner or Martin Resource Management, prohibits our general partner or its affiliates from acquiring more than 80% of our common units. For additional information about this call right and your potential tax liability, please read [Tax Risks](#) Tax gain or loss on the disposition of our common units could be different than expected and [The Partnership Agreement](#) Limited Call Right.

Martin Resource Management and its affiliates may engage in limited competition with us.

Martin Resource Management and its affiliates may engage in limited competition with us. For a description of the non-competition provisions of the omnibus agreement, please read [Certain Relationships and Related Transactions](#) [Agreements](#) [Omnibus Agreement](#). If Martin Resource Management does engage in competition with us, we may lose customers or business opportunities, which could have an adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders.

Our common units have a limited trading history and a limited trading volume compared to other publicly traded securities.

Our common units are quoted on the Nasdaq National Market under the symbol MMLP. However, our common units have a limited trading history and daily trading volumes for our common units are, and may continue to be, relatively small compared to many other securities quoted on the Nasdaq National Market. We cannot assure you that this offering will increase the trading volume for our common units, and the price of our common units may, therefore, be volatile.

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Tax Risks

You should read **Material Tax Consequences** for a full discussion of the expected material federal income tax consequences of owning and disposing of common units.

The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to unitholders.

The anticipated after-tax economic benefit of an investment in us depends largely on our classification as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay tax on our income at corporate rates, which is currently a maximum of 35%. Distributions to you would generally be taxed again to you as corporate distributions, and no income, gains, losses, or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, the cash available for distribution to unitholders would be substantially reduced. Treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to you and therefore would likely result in a substantial reduction in the value of the common units.

Current law may change so as to cause us to be taxable as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution amount and the target distribution amount will be adjusted to reflect the impact of that law on us.

A successful IRS contest of the federal income tax positions we take may adversely affect the market for our common units and the costs of any contest will be borne by our unitholders and our general partner.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from our counsel's conclusions expressed in this prospectus. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take. A court may not agree with some or all of our counsel's conclusions or the positions we take. Our counsel has not rendered an opinion on certain matters affecting us. Any contest with the IRS may materially and adversely impact the market for our common units and the prices at which they trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by all of our unitholders and our general partner.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

You may be required to pay federal income taxes and, in some cases, state, local and foreign income taxes on your share of our taxable income even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even the tax liability that results from the taxation of your share of our taxable income.

Tax gain or loss on the disposition of our common units could be different than expected.

If you sell your common units, you will recognize gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to you. Should

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the IRS successfully contest some positions we take, you could recognize more gain on the sale of units than would be the case under those positions, without the benefit of decreased income in prior years. In addition, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Changes in federal income tax law could affect the value of our common units.

On May 28, 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law, which generally reduces the maximum tax rate applicable to corporate dividends to 15%. This reduction could materially affect the value of our common units in relation to alternative investments in corporate stock, as investments in corporate stock may be relatively more attractive to individual investors thereby exerting downward pressure on the market price of our common units.

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities such as individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business income and will be taxable to them. Very little of our income will be qualifying income to a regulated investment company. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest effective tax rate applicable to individuals, and non-U.S. persons will be required to file federal income tax returns and pay tax on their share of our taxable income.

We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

We are registered with the IRS as a tax shelter. Our tax shelter registration number is 02318000009. The federal income tax laws require that some types of entities, including some partnerships, register as tax shelters in response to the perception that they claim tax benefits that may be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in our unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your tax return.

We treat a purchaser of our common units as having the same tax benefits without regard to the seller's identity. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we will adopt depreciation positions that may not conform to all aspects of the Treasury regulations. Please read **Material Tax Consequences Tax Consequences of Unit Ownership Section 754 Election**. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please read **Material Tax Consequences Uniformity of Units** for a further discussion of the effect of, and reasons for, the depreciation and amortization positions we will adopt.

You may be subject to state, local and foreign taxes and return filing requirements as a result of investing in our common units.

In addition to federal income taxes, unitholders may be subject to other taxes, such as state, local and foreign income taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You may be required to file

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state, local and foreign income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. We own property and conduct business in Alabama, Arizona, Arkansas, Georgia, Florida, Illinois, Louisiana, Mississippi, Texas and Utah. We may do business or own property in other states or foreign countries in the future. It is your responsibility to file all federal, state, local and foreign tax returns. Our counsel has not rendered an opinion on the state, local or foreign tax consequences of an investment in our common units.

FORWARD-LOOKING STATEMENTS

Statements included in this prospectus that are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), are forward-looking statements. These statements can be identified by the use of forward-looking terminology including forecast, may, believe, will, expect, anticipate, estimate, similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other forward-looking information. We and our representatives may from time to time make other oral or written statements that are also forward-looking statements.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of important reasons, including those discussed under Risk Factors and elsewhere in this prospectus.

USE OF PROCEEDS

We expect to receive net proceeds of approximately \$30.5 million from the sale of the 1,150,000 common units offered by this prospectus, after deducting underwriting discounts and estimated offering expenses, together with a capital contribution from our general partner of approximately \$0.7 million to maintain its 2% general partner interest in our partnership. We intend to use all of the net proceeds of this offering and the capital contribution from our general partner to repay a portion of the borrowings outstanding under our revolving credit facility incurred in connection with recent acquisitions. In connection with recent acquisitions, we incurred borrowings of \$30.0 million plus associated transaction fees and expenses under our revolving credit facility. We will use the net proceeds from any exercise of the underwriter's over-allotment option to further repay borrowings under our revolving credit facility.

As of the date of this prospectus, total borrowings under our revolving credit facility and our term loan were approximately \$65.0 million, with a weighted-average interest rate of 3.33%. We amended our credit agreement in December 2003 to increase our revolving credit facility thereunder from \$35.0 million to \$55.0 million. Our term loan and revolving credit facility mature on November 4, 2005. Proceeds from the funds borrowed under our revolving credit facility between January 2003 and December 2003 (totaling \$30.0 million) were used to finance the Tesoro Marine asset acquisition (\$27.0 million), the Cross Oil terminal acquisition (\$2.0 million) and the acquisition of a pushboat and two barges (\$1.0 million). Please read Business Recent Developments Tesoro Marine Asset Acquisition and Business Recent Developments Cross Oil Terminal Acquisition.

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The following table shows our capitalization as of September 30, 2003:

on a historical basis;

a pro forma basis to give effect to the Tesoro Marine asset acquisition and the borrowings associated with this acquisition under our revolving credit facility; and

a pro forma as adjusted basis to give effect to the common units offered by this prospectus, our general partner's proportionate capital contribution and the application of the net proceeds from this offering as described in Use of Proceeds.

This table should be read together with, and is qualified in its entirety by, reference to our historical and pro forma consolidated and combined financial statements and the accompanying notes included elsewhere in this prospectus. You should also read this table in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	As of September 30, 2003		
	Historical	Pro Forma	Pro Forma As Adjusted
	(In thousands)		
Cash and cash equivalents	\$ 5,956	\$ 4,552	\$ 4,552
Long-term debt:			
Term debt	\$ 25,000	\$ 25,000	\$ 25,000
Revolving credit facility	10,000	37,000(1)	5,828(1)
Total long-term debt	35,000	62,000	30,828
Partners' capital:			
Common Unitholders	47,917	47,917	78,418
Subordinated Unitholders	(1,993)	(1,993)	(1,993)
General partner	(26)	(26)	645
Total partners' capital	45,898	45,898	77,070
Total capitalization	\$ 80,898	\$ 107,898	\$ 107,898

- (1) Does not include \$3.0 million of additional borrowings under our revolving credit debt incurred in connection with the October 2003 acquisition by us of the Cross marine terminal and three vessels.

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Our common units are quoted on the Nasdaq National Market under the symbol MMLP. Our common units were admitted for quotation on November 1, 2002 at an initial public offering price of \$19.00 per common unit. The following table shows the low and high closing sale prices per common unit, as reported by the Nasdaq National Market, and the cash distributions per unit for the periods indicated.

	Common Unit Price Range		Cash Distributions Per Unit
	Low	High	
2004:			
Quarter Ended March 31(a)	\$27.20	\$30.00	\$
2003:			
Quarter Ended December 31	\$26.10	\$30.53	\$ 0.525(b)
Quarter Ended September 30	\$22.62	\$26.30	\$ 0.50
Quarter Ended June 30	\$18.63	\$24.00	\$ 0.50
Quarter Ended March 31	\$17.50	\$19.03	\$ 0.50
2002:			
Quarter Ended December 31	\$17.05	\$18.25	\$0.3077(c)

(a) Through January 21, 2004.

(b) For the quarter ended December 31, 2003, the board of directors of our general partner has authorized a distribution of \$0.525 per unit, representing \$0.025 in excess of the minimum quarterly distribution on all of our outstanding units. This distribution will be paid on February 13, 2004 to common and subordinated unitholders of record as of the close of business on January 30, 2004. You will not be a holder of record entitled to receive this distribution

(c) This distribution is equivalent to a full minimum quarterly distribution of \$0.50 per unit prorated for the period from November 6, 2002, the date of the closing of our initial public offering, through December 31, 2002.

The last reported sale price of our common units on the Nasdaq National Market on January 21, 2004 was \$28.60. As of January 21, 2004, there were approximately 17 holders of record of our common units.

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CASH DISTRIBUTION POLICY

Distributions of Available Cash

General. Within 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date. During the subordination period, which we define below and in the glossary located as Appendix A, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.50 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units.

Definition of Available Cash. We define available cash in the glossary located at Appendix A, and it generally means, for each fiscal quarter, all cash on hand at the end of the quarter:

less the amount of cash our general partner determines in its reasonable discretion is necessary or appropriate to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments, or other agreements; or

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our revolving credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

Intent to Distribute the Minimum Quarterly Distribution. We intend to distribute to the holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of \$0.50 per unit, or \$2.00 per year, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of expenses, including payments to our general partner. There is no guarantee, however, that we will pay the minimum quarterly distribution on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our revolving credit facility.

Restrictions on Our Ability to Distribute Available Cash Contained in Our Credit Agreement. Our ability to distribute available cash is contractually restricted by the terms of our credit agreement. Our credit agreement contains covenants requiring us to maintain certain financial ratios. We are prohibited from making any distributions to unitholders if the distribution would cause an event of default, or an event of default is existing, under our credit agreement or, if after giving effect to any distribution, we would then have less than \$5 million of borrowing availability thereunder. Please read Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Description of Our Credit Facility.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized as either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus. We define operating surplus in the glossary located at Appendix A. For any period it generally means:

our cash balance at the closing of our initial public offering; plus

\$8.5 million (as described below); plus

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all of our cash receipts since our initial public offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

all of our operating expenditures since our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less

the amount of cash reserves our general partner deems necessary or advisable to provide funds for future operating expenditures.

Definition of Capital Surplus. We also define capital surplus in the glossary located at Appendix A. It will generally be generated only by:

borrowings other than working capital borrowings;

sales of debt and equity securities; and

sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As reflected above, operating surplus includes \$8.5 million in addition to our cash balance at the closing of our initial public offering, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect actual cash on hand at the closing of our initial public offering that was available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to \$8.5 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities and long-term borrowings, that would otherwise be distributed as capital surplus. While we do not currently anticipate that we will make any distributions from capital surplus in the near term, we may determine that the sale or disposition of an asset or business owned or acquired by us may be beneficial to our unitholders. If we distribute to you the equity we own in a subsidiary or the proceeds from the sale of one of our businesses, such a distribution would be characterized as a distribution from capital surplus.

Subordination Period

General. During the subordination period, which we define below and in the glossary located at Appendix A, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.50 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

Definition of Subordination Period. We define the subordination period in the glossary located at Appendix A. The subordination period will extend until the first day of any quarter beginning after September 30, 2009 in which each of the following tests are met:

distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

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the adjusted operating surplus (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

Early Conversion of Subordinated Units. Before the end of the subordination period, a portion of the subordinated units may convert into common units on a one-for-one basis immediately after the distribution of available cash to the partners in respect of any quarter ending on or after:

September 30, 2005 with respect to 20% of the subordinated units;

September 30, 2006 with respect to 20% of the subordinated units;

September 30, 2007 with respect to 20% of the subordinated units; and

September 30, 2008 with respect to 20% of the subordinated units.

The early conversions will occur if at the end of the applicable quarter each of the following occurs:

distributions of available cash from operating surplus on the common units and the subordinated units equal or exceed the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

However, the early conversion of the second, third or fourth 20% of the subordinated units may not occur until at least one year following the early conversion of the first, second or third 20% of the subordinated units, as the case may be.

In addition to the early conversion of subordinated units described above, 20% of the subordinated units may convert into common units on a one-for-one basis prior to the end of the subordination period if at the end of a quarter ending on or after September 30, 2005 each of the following occurs:

distributions of available cash from operating surplus on each common unit and subordinated unit equaled or exceeded \$2.50 for each of the two consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the two consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of a distribution of \$2.50 on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

This additional early conversion is a one time occurrence.

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Finally, 20% of the subordinated units may convert into common units on a one-for-one basis prior to the end of the subordination period if at the end of a quarter ending on or after September 30, 2005 each of the following occurs:

distributions of available cash from operating surplus on each common unit and subordinated unit equaled or exceeded \$3.00 for each of the two consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus generated during each of the two consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of a distribution of \$3.00 on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and

there are no arrearages in payment of the minimum quarterly distribution on the common units.

This additional early conversion is a one time occurrence.

Generally, the earliest possible date by which all subordinated units may be converted into common units is September 30, 2007.

Definition of Adjusted Operating Surplus. We define adjusted operating surplus in the glossary located at Appendix A and for any period it generally means:

operating surplus generated with respect to that period; less

any net increase in working capital borrowings with respect to that period; less

any net reduction in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

any net decrease in working capital borrowings with respect to that period; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Effect of Expiration of the Subordination Period. Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of such removal:

the subordination period will end and each subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of those interests at the time.

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Distributions of Available Cash from Operating Surplus During the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

First, 98% to the common unitholders, pro rata, and 2% to our general partner until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter;

Second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;

Third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

Thereafter, in the manner described in Incentive Distribution Rights below.

Distributions of Available Cash from Operating Surplus After the Subordination Period

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

First, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

Thereafter, in the manner described in Incentive Distribution Rights below.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights but may transfer these rights separately from its general partner interest, subject to restrictions in our partnership agreement.

If for any quarter:

we have distributed available cash from operating surplus on each common unit and subordinated unit in an amount equal to the minimum quarterly distribution; and

we have distributed available cash from operating surplus on each outstanding common unit in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;
then we will distribute any additional available cash from operating surplus for that quarter among the unitholders and our general partner in the following manner:

First, 98% to all unitholders, pro rata, and 2% to our general partner, until each unitholder receives a total of \$0.55 per unit for that quarter (the first target distribution);

Second, 85% to all unitholders, pro rata, and 15% to our general partner, until each unitholder receives a total of \$0.625 per unit for that quarter (the second target distribution);

Third, 75% to all unitholders, pro rata, and 25% to our general partner, until each unitholder receives a total of \$0.75 per unit for that quarter (the third target distribution);

Thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution.

Table of Contents**Percentage Allocations of Available Cash from Operating Surplus**

The following table illustrates the percentage allocations of the additional available cash from operating surplus between the unitholders and our general partner up to various target distribution levels. The amounts set forth under **Marginal Percentage Interest in Distributions** are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column **Total Quarterly Distribution Target Amount**, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests shown for our general partner include its 2% general partner interest and assumes the general partner has not transferred the incentive distribution rights.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholder	General Partner
Minimum Quarterly Distribution	\$0.50	98%	2%
First Target Distribution	up to \$0.55	98%	2%
Second Target Distribution	above \$0.55 up to \$0.625	85%	15%
Third Target Distribution	above \$0.625 up to \$0.75	75%	25%
Thereafter	above \$0.75	50%	50%

Distributions from Capital Surplus

How Distributions from Capital Surplus Will Be Made. We will make distributions of available cash from capital surplus, if any, in the following manner:

First, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit that was issued in this offering an amount of available cash from capital surplus equal to the initial public offering price;

Second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the **unrecovered initial unit price**. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for our general partner to receive incentive distributions and for the subordinated units to convert into common units. Any distribution of capital surplus before the unrecovered initial unit price is reduced to zero, however, cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero. We will then make all future distributions from operating surplus, with 50% being paid to the holders of units, 48% to the holders of the incentive distribution rights and 2% to our general partner.

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Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

the minimum quarterly distribution;

target distribution levels;

unrecovered initial unit price;

the number of common units issuable during the subordination period without a unitholder vote; and

the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For example, if we became subject to a maximum marginal federal and effective state and local income tax rate of 38%, then the minimum quarterly distribution and the target distributions levels would each be reduced to 62% of their previous levels.

Distributions of Cash upon Liquidation

If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

Manner of Adjustments for Gain. The manner of the adjustment for gain is set forth in our partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

First, to our general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

Second, 98% to the common unitholders, pro rata, and 2% to our general partner until the capital account for each common unit is equal to the sum of:

- (1) the unrecovered initial unit price; plus

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- (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; plus
- (3) any unpaid arrearages in payment of the minimum quarterly distribution;

Third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner until the capital account for each subordinated unit is equal to the sum of:

- (1) the unrecovered initial unit price; and
- (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

Fourth, 98% to all unitholders, pro rata, and 2% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to our general partner, for each quarter of our existence;

Fifth, 85% to all unitholders, pro rata, and 15% to our general partner, pro rata, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 85% to the units, pro rata, and 15% to our general partner, pro rata, for each quarter of our existence;

Sixth, 75% to all unitholders, pro rata, and 25% to our general partner, until we allocate under this paragraph an amount per unit equal to:

- (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less
- (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to our general partner for each quarter of our existence;

Thereafter, 50% to all unitholders, pro rata, and 50% to our general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

Manner of Adjustments for Losses. Upon our liquidation, we will generally allocate any loss to our general partner and the unitholders in the following manner:

First, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to our general partner until the capital accounts of the subordinated unitholders have been reduced to zero;

Second, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to our general partner until the capital accounts of the common unitholders have been reduced to zero; and

Thereafter, 100% to our general partner.

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If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first priority above will no longer be applicable.

Adjustments to Capital Accounts. We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner that results, to the extent possible, in the general partner's capital account balances equaling the amount that they would have been if no earlier positive adjustments to the capital accounts had been made.

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SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following table shows selected historical and pro forma financial data of Martin Midstream Partners Predecessor and Martin Midstream Partners L.P. for the periods and as of the dates indicated. Martin Midstream Partners Predecessor is the term used to describe certain assets, liabilities and operations owned by Martin Resource Management that were transferred to us upon completion of our initial public offering in November 2002. Our four primary lines of business are:

marine transportation services for hydrocarbon products and by-products;

terminalling of hydrocarbon products and by-products;

distribution of LPGs; and

manufacturing and marketing fertilizer products, which are primarily sulfur-based, and other sulfur-related products.

The selected historical financial data as of December 31, 2000 and 2001, for the years ended December 31, 2000 and 2001 and for the period from January 1, 2002 to November 5, 2002 are derived from the audited combined financial statements of Martin Midstream Partners Predecessor. The selected historical financial data as of December 31, 1998 and 1999, for the years ended December 31, 1998 and 1999, as of September 30, 2002 and for the nine months ended September 30, 2002 are derived from the unaudited combined financial statements of Martin Midstream Partners Predecessor. The selected historical financial data as of December 31, 2002 and the period from November 6, 2002 to December 31, 2002 are derived from the audited consolidated financial statements of Martin Midstream Partners L.P. The unaudited historical financial data as of September 30, 2003 and for the nine months ended September 30, 2003 are derived from the unaudited consolidated financial statements of Martin Midstream Partners L.P.

The selected pro forma financial data reflect our consolidated historical operating results as adjusted for the Tesoro Marine asset acquisition, the borrowings under our revolving credit facility, this offering, the implementation of new contracts with Martin Resource Management and, in the case of the pro forma statement of operations for the year ended December 31, 2002, our initial public offering. The selected pro forma financial data is derived from the unaudited pro forma financial statements. The pro forma balance sheet data assumes the borrowing of \$27.0 million under our revolving credit facility and that this offering occurred on September 30, 2003. The pro forma statement of operations data assumes that the Tesoro Marine asset acquisition, the borrowings under our revolving credit facility, this offering, the implementation of new contracts with the Martin Resource Management and our initial public offering occurred on January 1, 2002. For a description of all of the assumptions used in preparing the selected pro forma financial data, you should read the notes to the pro forma financial statements included elsewhere in this prospectus. The pro forma financial data should not be considered as indicative of the historical results we would have had or the future results that we will have after the offering.

Our molten sulphur business operations were transferred to CF Martin Sulphur, L.P. in November 2000. Therefore, revenues, operating costs and operating income were reflected in the historical combined income statements prior to that time, and, subsequently, have been reflected through our unconsolidated non-controlling 49.5% limited partnership interest in CF Martin Sulphur, L.P. under the equity method of accounting.

We define EBITDA as net income plus interest expense, income taxes and depreciation and amortization expense. We use EBITDA as a supplemental financial measure to assess:

the ability of our assets to generate cash sufficient for us to pay interest costs and to make cash distributions to our unitholders;

the financial performance of our assets;

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our liquidity and performance over time, and in relation to other companies that own similar assets and that we believe calculate EBITDA in a manner similar to us; and

in certain situations, the appropriateness of the purchase price of assets or companies we might consider acquiring.

Although we use EBITDA to assess our ability to generate cash sufficient to pay interest costs and make cash distributions to our unitholders, the amount of cash available for distributions is subject to the reservation of cash for other uses, such as debt repayments, capital expenditures and operating activities.

We also understand that such data is used by investors to assess our historical ability to service our indebtedness and make cash distributions to unitholders. However, the term EBITDA is not defined under generally accepted accounting principles and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with generally accepted accounting principles. When assessing our operating performance or our liquidity, you should not consider this data in isolation or as a substitute for our net income, cash flow from operating activities or other cash flow data calculated in accordance with generally accepted accounting principles. In addition, our EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as we do.

You should note that our EBITDA and our net income includes our equity in the earnings of CF Martin Sulphur, L.P., in which we own a unconsolidated non-controlling 49.5% limited partnership interest. Under the equity method of accounting, we include in our earnings our proportionate share of CF Martin Sulphur, L.P.'s income or losses. However, the amount of our proportionate share of the earnings or losses of CF Martin Sulphur, L.P. may differ from the actual amount of cash, if any, that is distributed to us. As a result, the amount of our EBITDA in any particular period may be significantly higher or lower than the amount of cash we generate in that period.

For example, for the years ended December 31, 2001 and 2002, our EBITDA was \$16.9 million and \$16.3 million, respectively, and our equity in the earnings of CF Martin Sulphur, L.P. was \$1.6 million and \$3.4 million, respectively. However, we received cash distributions from CF Martin Sulphur, L.P. during the 2001 period of \$0.4 million and \$0.9 million during the 2002 period. For the nine-months ended September 30, 2002 and 2003, our EBITDA was \$11.3 million and \$13.3 million, respectively, and our equity in the earnings of CF Martin Sulphur, L.P. was \$2.5 million and \$2.3 million, respectively. We did not receive cash distributions from CF Martin Sulphur, L.P. during the 2002 period and received \$2.7 million during the 2003 period. Please read **Business** **CF Martin Sulphur, L.P.** **Management and Ownership Distributions** for more information related to cash distributions from this partnership.

Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of our assets and extend their useful lives. Expansion capital expenditures represent capital expenditures to expand the existing operating capacity of our assets, whether through construction or acquisition. Repair and maintenance expenditures associated with existing assets that are minor in nature and do not extend the useful life of existing assets are treated as operating expenses as incurred.

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We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical and pro forma combined and consolidated financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Martin Midstream Partners Predecessor				Martin Midstream Partners	Martin Midstream Partners Predecessor	Martin Midstream Partners			
					Period From January 1, 2002	Period From November 6, 2002	Nine Months Ended September 30,		Pro Forma As Adjusted	
	Years Ended December 31,				Through November 5, 2002	Through December 31, 2002	September 30,		Year Ended December 31,	Nine Months Ended September 30,
	1998	1999	2000	2001	2002	2002	2002	2003	2002	2003
(In thousands)										
Income Statement Data:										
Revenues	\$ 142,203	\$ 172,895	\$ 199,813	\$ 163,118	\$ 116,160	\$ 33,746	\$ 101,342	\$ 140,098	\$ 171,174	\$ 156,610
Cost of product sold	103,446	129,934	150,063	119,767	84,072	26,436	72,667	109,695	116,467	114,161
Operating expenses	20,183	22,557	25,993	20,472	16,654	3,056	14,725	14,908	28,139	21,162
Selling, general, and administrative	7,344	8,747	7,880	7,513	5,767	857	4,953	4,576	6,928	4,786
Depreciation and amortization	5,578	6,914	6,413	4,122	3,741	747	3,356	3,515	6,739	5,203
Impairment										2,352(1)
Total costs and expenses	136,551	168,152	190,349	151,874	110,234	31,096	95,701	132,694	158,273	147,664
Operating income	5,652	4,743	9,464	11,244	5,926	2,650	5,641	7,404	12,901	8,946
Equity in earnings (losses) of unconsolidated entities		(110)	192	1,477	2,565	599	2,236	2,308	3,164	2,308
Interest expense	(4,650)	(7,049)	(7,949)	(5,390)	(3,283)	(345)	(2,976)	(1,442)	(2,227)	(1,622)
Other, net	115	296	70	82	42	5	36	68	47	68
Income (loss) before income taxes	1,117	(2,120)	1,777	7,413	5,250	2,909	4,937	8,338	13,885	9,700
Income taxes	500	(501)	847	2,735	1,959		1,818			
Net income (loss)	\$ 617	\$ (1,619)	\$ 930	\$ 4,678	\$ 3,291	\$ 2,909	\$ 3,119	\$ 8,338	\$ 13,885	\$ 9,700
Balance Sheet Data										
(At Period End):										
Total assets	\$ 110,808	\$ 123,275	\$ 102,384	\$ 88,953		\$ 100,455	\$ 95,368	\$ 103,274		\$ 130,274
Due to affiliates	44,581	54,317	39,096	36,796			34,795	770		770
Long-term debt	26,082	24,274	10,691	7,845		35,000	7,168	35,000		30,828
Owner's equity (partners' capital)	14,769	13,150	14,080	18,758		47,106	21,877	45,898		77,070
Cash Flow Data:										
Net cash flow provided by (used)										

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in):

Operating activities	\$ 5,274	\$ 6,537	\$ 1,621	\$ 11,144	\$ 316	\$ 4,824	\$ 4,579	\$ 12,441
Investing activities	(28,321)	(14,952)	(3,084)	(6,809)	(1,962)	(2,116)	(1,875)	1,327
Financing activities	23,194	7,947	1,421	(4,400)	6,897	(6,287)	(2,641)	(9,546)

Other Financial

Data:										
EBITDA	\$ 11,345	\$ 11,843	\$ 16,139	\$ 16,925	\$ 12,274	\$ 4,001	\$ 11,269	\$ 13,295	\$ 22,851	\$ 16,525(2)
Maintenance capital expenditures	\$ 3,364	\$ 3,479	\$ 1,934	\$ 2,465	\$ 394	\$ 157	\$ 307	\$ 1,215		
Expansion capital expenditures	2,257	11,652	2,010	3,764	1,909	2,850	1,909	131		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>		
Total capital expenditures	\$ 5,621	\$ 15,131	\$ 3,944	\$ 6,229	\$ 2,303	\$ 3,007	\$ 2,216	\$ 1,346		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>		

- (1) This represents a pre-acquisition non-cash impairment charge taken by the seller against certain assets acquired by us in the Tesoro Marine asset acquisition based on the fair value of such assets as reflected in the purchase price we paid, relative to the historic book value thereof.
- (2) Pro forma as adjusted EBITDA for the nine months ended September 30, 2003 includes the effect of the impairment charge described in note (1) above.

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Non-GAAP Financial Measure

We define EBITDA as net income plus interest expense, income taxes and depreciation and amortization expense. We use EBITDA as a supplemental financial measure to assess:

the ability of our assets to generate cash sufficient for us to pay interest costs and to make cash distributions to our unitholders;

the financial performance of our assets;

our liquidity and performance over time, and in relation to other companies that own similar assets and that we believe calculate EBITDA in a manner similar to us; and

in certain situations, the appropriateness of the purchase price of assets or companies we might consider acquiring.

We also understand that such data is used by investors to assess our historical ability to service our indebtedness and make cash distributions to unitholders. However, the term EBITDA is not defined under generally accepted accounting principles and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with generally accepted accounting principles. When assessing our operating performance or our liquidity, you should not consider this data in isolation or as a substitute for our net income, cash flow from operating activities or other cash flow data calculated in accordance with generally accepted accounting principles. In addition, our EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as we do.

The following table reconciles our EBITDA to our net income:

Martin Midstream Partners Predecessor					Martin Midstream Partners	Martin Midstream Partners Predecessor	Martin Midstream Partners			
							Pro Forma As Adjusted			
Period From January 1, 2002 Through November 5, 2002				Period From November 6, 2002 Through December 31, 2002	Nine Months Ended September 30, 2002		Year Ended December 31, 2002		Nine Months Ended September 30, 2003	
Years Ended December 31,										
1998	1999	2000	2001	2002	2002	2002	2003	2002	2002	2003
(In thousands)										
EBITDA										
Reconciliation:										
Net income (loss)	\$ 617	\$ (1,619)	\$ 930	\$ 4,678	\$ 3,291	\$ 2,909	\$ 3,119	\$ 8,338	\$ 13,885	\$ 9,700
Plus:										
Depreciation and amortization	5,578	6,914	6,413	4,122	3,741	747	3,356	3,515	6,739	5,203
Interest expense	4,650	7,049	7,949	5,390	3,283	345	2,976	1,442	2,227	1,622
Income Taxes	500	(501)	847	2,735	1,959		1,818			
EBITDA	\$ 11,345	\$ 11,843	\$ 16,139	\$ 16,925	\$ 12,274	\$ 4,001	\$ 11,269	\$ 13,295	\$ 22,851	\$ 16,525(1)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion of our financial condition and results of operations in conjunction with the historical and pro forma consolidated and combined financial statements and the notes thereto included in this prospectus. For more detailed information regarding the basis for presentation for the following information, you should read the notes to the historical and pro forma consolidated and combined financial statements included in this prospectus.

Overview

We are a Delaware limited partnership formed by Martin Resource Management to receive the transfer of substantially all of the assets, liabilities and operations of Martin Resource Management related to the four lines of business in which we operate. We provide marine transportation, terminalling, distribution and midstream logistical services for producers and suppliers of hydrocarbon products and by-products, lubricants and other liquids. We also manufacture and market sulfur-based fertilizers and related products. Hydrocarbon products and by-products are produced primarily by major and independent oil and gas companies who often turn to independent third parties, such as us, for the transportation and disposition of these products. In addition to these major and independent oil and gas companies, our primary customers include independent refiners, large chemical companies, fertilizer manufacturers and other wholesale purchasers of hydrocarbon products and by-products. We operate primarily in the Gulf Coast region of the United States.

In connection with the November 6, 2002 closing of our initial public offering of common units representing limited partner interests, Martin Resource Management and certain of its subsidiaries conveyed to us certain of their assets, liabilities and operations, in exchange for the following: (i) a 2% general partnership interest held by Martin Midstream GP LLC, an indirect wholly-owned subsidiary of Martin Resource Management, (ii) incentive distribution rights granted by us, and (iii) 4,253,362 subordinated units in us. The historical combined financial statements of Martin Midstream Partners Predecessor included in this prospectus reflect the financial condition and results of operations of the assets and operations contributed to us in November 2002. The operations that were contributed to us relate to four primary lines of business: (1) marine transportation of hydrocarbon products and hydrocarbon by-products; (2) terminalling of hydrocarbon products and hydrocarbon by-products; (3) LPG distribution; and (4) fertilizer manufacturing.

We analyze and report our results of operations on a segment basis. Our four operating segments are as follows:

marine transportation services for hydrocarbon products and by-products;

terminalling of hydrocarbon products and by-products;

distribution of LPGs; and

manufacturing and marketing fertilizer products, which are primarily sulfur-based, and other sulfur-related products.

In November 2000, Martin Resource Management and CF Industries, Inc. formed CF Martin Sulphur, L.P. CF Martin Sulphur, L.P. collects and aggregates, transports, stores and markets molten sulfur supplied by oil refiners and natural gas processors. Prior to November 2000, Martin Resource Management operated this molten sulfur business as part of its LPG distribution business, which was recently contributed to us in connection with our formation. We have an unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P. We account for this interest in CF Martin Sulphur, L.P. using the equity method since we do not control this entity. As a result, we have not included any portion of the revenue, operating costs or operating income attributable to CF Martin Sulphur, L.P. in our results of operations or in the results of operations of any of our operating segments. Rather, we have included only our share of its net income in our statement of operations.

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Under the equity method of accounting, we do not include any individual assets or liabilities of CF Martin Sulphur, L.P. on our balance sheet; instead, we carry our book investment as a single amount within the other assets caption on our balance sheet. We have not guaranteed the repayment of any debt of CF Martin Sulphur, L.P. and we should not otherwise be required to repay any obligations of CF Martin Sulphur, L.P. if it defaults on any such obligations.

Our operations were part of a taxable consolidated group prior to November 6, 2002. Therefore, for all periods prior to November 6, 2002, our consolidated and combined financial statements include the effects of applicable income taxes in order to comply with generally accepted accounting principles. Subsequent to November 6, 2002, we have not been subject to federal or state income taxes as a result of our partnership structure. Therefore, our results of operations subsequent to November 6, 2002 do not include the effects of any income taxes.

The results of operations for the years ended December 31, 2001 and 2000 and the nine months ended September 30, 2002 have been derived from the combined financial statements of Martin Midstream Partners Predecessor. The combined results of operations for the year ended December 31, 2002 have been derived from the combined financial statements of Martin Midstream Partners Predecessor for the period from January 1, 2002 through November 5, 2002 and the consolidated financial statements of Martin Midstream Partners, L.P. for the period from November 6, 2002 through December 31, 2002. The results of operations for the nine months ended September 30, 2003 have been derived from the financial statements of Martin Midstream Partners L.P.

Subsequent Events

In December 2003, we completed the acquisition of certain assets associated with Tesoro Marine Services, L.L.C.'s shore based marine activities for \$25.0 million plus approximately \$1.8 million for Tesoro Marine's lubricant inventories. The assets we acquired included 13 marine terminals and one inland terminal located along the Gulf Coast from Venice, Louisiana to Corpus Christi, Texas, nine inland tank barges and four inland pushboats, and Tesoro Marine's lubricant distribution and marketing business. We financed this acquisition through borrowings under our revolving credit facility. Tesoro Marine Services, L.L.C. is a subsidiary of Tesoro Petroleum Corporation, a refiner and marketer of petroleum products.

In December 2003, in a parallel transaction, Midstream Fuel Service LLC, a wholly owned subsidiary of Martin Resource Management, the owner of our general partner, completed its acquisition of Tesoro Marine's fuel oil distribution business for approximately \$2.0 million plus approximately \$4.8 million for Tesoro Marine's diesel fuel inventories. Midstream Fuel, rather than us, acquired these assets from Tesoro Marine because fuel oil distribution generates non-qualifying income under Internal Revenue Service regulations applicable to publicly traded limited partnerships. However, following the closing of the marine asset acquisition and the fuel oil distribution acquisition, we entered into certain agreements with Martin Resource Management pursuant to which we provide marine transportation and terminalling services to Midstream Fuel and Midstream Fuel provides terminal services to us to handle lubricants, greases and drilling fluids.

In October 2003, we acquired a marine terminal located on the Ouachita River in southern Arkansas from Cross Oil Refining & Marketing, Inc. for \$2.0 million. At the same time, we entered into a five year terminalling agreement with Cross, with two five year renewal terms, whereby Cross has the right to use the acquired terminal for the storage of crude oil and/or finished oil products. We also entered into a five year marine transportation agreement with Cross, with two five year renewal terms, whereby we agreed to provide two inland tank barges on a full time basis for the marine transportation of crude oil and finished oil products owned by Cross or owned by others that are in transit to Cross's refinery located in southern Arkansas.

In October 2003, in another separate transaction, we purchased an inland pushboat and two inland tank barges from a third party for \$1.0 million. We use these vessels to transport crude oil pursuant to the marine transportation agreement with Cross.

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We recently declared a cash distribution of \$0.525 per unit, payable on February 13, 2004 to common and subordinated unitholders of record as of the close of business on January 30, 2004. You will not be a holder of record entitled to receive this distribution. This distribution reflects an increase of \$0.025 per unit over the quarterly distributions we previously paid and is based on our current operating performance and the current general economic, industry and market conditions impacting us.

In December 2003, we amended our credit agreement and increased our existing credit facility from a total of \$60.0 million to \$80.0 million. Our term loan remained at \$25.0 million and our revolving credit facility increased from \$35.0 million to \$55.0 million. Our expanded revolving credit facility provides for a \$30.0 million acquisition line and a \$25.0 million working capital facility. We financed the Tesoro Marine asset acquisition through borrowings under our revolving credit facility. We intend to use the net proceeds of this offering to repay a portion of the borrowings outstanding under our revolving credit facility.

In May 2003, we experienced a casualty loss caused by a lightening strike at our Odessa, Texas sulfur and fertilizer facility. This event did not negatively affect our operating results during the second or third quarters of 2003. During the fourth quarter of 2003, we expect to receive insurance proceeds resulting from this loss of approximately \$0.7 million and we expect to record a gain of approximately \$0.6 million related to this involuntary conversion of assets.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on the historical consolidated and combined financial statements included elsewhere herein. We prepared these financial statements in conformity with generally accepted accounting principles. The preparation of these financial statements required us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Our results may differ from these estimates. Currently, we believe that our accounting policies do not require us to make estimates using assumptions about matters that are highly uncertain. However, we have described below the critical accounting policies that we believe could impact our consolidated and combined financial statements most significantly.

You should also read Note 2, *Significant Accounting Policies* in Notes to Consolidated and Combined Condensed Financial Statements contained in this prospectus and the similar note in the consolidated and combined financial statements included in the Partnership's 2002 Form 10-K filed with the SEC on March 26, 2003 in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations. Some of the more significant estimates in these financial statements include the amount of the allowance for doubtful accounts receivable and the determination of the fair value of our reporting units under the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

Product Exchanges. We enter into product exchange agreements with third parties whereby we agree to exchange LPGs with third parties. We record the balance of LPGs due to other companies under these agreements at quoted market product prices and the balance of LPGs due from other companies at the lower of cost or market. Cost is determined using the first-in, first-out (*FIFO*) method.

Revenue Recognition. For our marine transportation segment, we recognize revenue for contracted trips upon completion of the trips. For time charters, we recognize revenue based on the daily rate. For our terminalling segment, we recognize revenue monthly for storage contracts based on the contracted monthly tank fixed fee. For throughput contracts, we recognize revenue based on the volume moved through our terminals at the contracted rate. For our LPG distribution segment, we recognize revenue for product delivered by truck upon the delivery of LPGs to our customers, which occurs when the customer physically receives the product. When product is sold in storage, or by pipeline, we recognize revenue when the customer receives the product from either the storage facility or pipeline. For our fertilizer

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segment, we recognize revenue when the customer takes title to the product, either at our plant or the customer's facility.

Equity Method Investment. We use the equity method of accounting for our interest in CF Martin Sulphur, L.P. because we only own an unconsolidated non-controlling 49.5% limited partner interest in this entity. In accordance with FASB's Emerging Issues Task Force (EITF) Issue 89-7, Exchange of Assets or Interest in a Subsidiary for a Non-Controlling Equity Interest in a New Entity, we did not recognize a gain when we contributed our molten sulfur business to CF Martin Sulphur, L.P. because we concluded we had an implied commitment to support the operations of this entity as a result of our role as a supplier of product to CF Martin Sulphur, L.P. and our relationship to Martin Resource Management, which guarantees the debt of this entity.

As a result of the non-recognition of this gain, the amount we initially recorded as an investment in CF Martin Sulphur, L.P. on our balance sheet is less than the amount of our underlying equity in this entity as recorded on the books of CF Martin Sulphur, L.P. We are amortizing such excess amount over 20 years, the expected life of the net assets contributed to this entity, as additional equity in earnings of CF Martin Sulphur, L.P. in our statements of operations.

Goodwill. We adopted SFAS No. 142 effective January 1, 2002. SFAS No. 142 discontinues goodwill amortization over its estimated useful life; rather goodwill is subject to a fair-value based impairment test in the year of adoption and on an annual basis.

The amount of our unamortized goodwill as of December 31, 2001 was \$2.9 million. We performed the initial and annual impairment tests required by SFAS No. 142 as of January 1, 2002, September 30, 2002 and September 30, 2003, respectively. In performing such tests, we determined we had three reporting units which contained goodwill. These reporting units were three of our reporting segments and were: marine transportation, LPG distribution and fertilizer.

We performed the first step under SFAS No. 142, which is to compare the fair value of each reporting unit to the related carrying amount (including amounts for goodwill) in the consolidated and combined financial statements. We determined fair value in each reporting unit based on a multiple of current annual cash flows. We determined such multiple from our recent experience with actual acquisitions and dispositions and valuing potential acquisitions and dispositions.

For all three reporting units and all test dates, the fair value exceeded the carrying amount of the reporting units, indicating no impairment of goodwill.

Prior to January 1, 2002, we amortized goodwill on a straight-line basis over the expected future periods to be benefited, generally 15 years. We assessed goodwill for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation.

Environmental Liabilities. Historically, we have not experienced circumstances requiring us to account for environmental remediation obligations. If such circumstances arise, we would estimate remediation obligations utilizing a remediation feasibility study and any other related environmental studies that we may elect to perform. We would record changes to our estimated environmental liability as circumstances change or events occur, such as the issuance of revised orders by governmental bodies or court or other judicial orders and our evaluation of the likelihood and amount of the related eventual liability.

Allowance for Doubtful Accounts. In evaluating the collectibility of our accounts receivable, we assess a number of factors, including a specific customer's ability to meet its financial obligations to us, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for bad debts to reduce the related receivable to the amount we ultimately expect to collect from customers.

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Our Relationship with Martin Resource Management

We are both an important supplier to and customer of Martin Resource Management. We provide marine transportation and terminalling services to Martin Resource Management under the following agreements. Each agreement has a three-year term, which began on November 1, 2002, and will automatically renew for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term.

We provide marine transportation services to Martin Resource Management under a marine transportation agreement on a spot-contract basis. We charge fees to Martin Resource Management under this agreement based on applicable market rates. Additionally, under this agreement, Martin Resource Management has agreed, for a three year period beginning November 1, 2002, to use four of our vessels in a manner such that we receive at least \$5.6 million annually for the use of these vessels by Martin Resource Management and third parties.

Martin Resource Management leases one of our tanks at our Tampa terminal under a terminal services agreement. The tank lease fee was fixed for the first year of the agreement and is adjusted annually based on a price index.

We purchase land transportation services, underground storage services, sulfuric acid and marine fuel from Martin Resource Management. We also have exclusive access to and use of a truck loading and unloading terminal and pipeline distribution system owned by Martin Resource Management at Mont Belvieu, Texas. We purchase these products and services under the following agreements. Each agreement has a three-year term, beginning on November 1, 2002, and will automatically renew for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term.

Martin Resource Management transports LPG shipments and other liquid products under a motor carrier agreement. Our shipping rates were fixed for the first year of the agreement, subject to certain cost adjustments. Shipping rates may be adjusted in accordance with a price index.

We lease 120 million gallons of underground storage capacity in Arcadia, Louisiana from Martin Resource Management under an underground storage agreement. Our per-unit cost under this agreement was fixed for the first year of the agreement and is adjusted annually based on a price index.

We purchase sulfuric acid and marine fuel on a spot-contract basis at a set margin over Martin Resource Management's cost under product supply agreements.

We use Martin Resource Management's Mont Belvieu truck loading and unloading terminal and pipeline distribution system under a throughput agreement. Our throughput fees were fixed for the first year of the agreement and are adjusted on an annual basis in accordance with a price index.

With the exception of marine transportation services, which we provide to Martin Resource Management at applicable market rates, the pricing and rates of all of these agreements were based on the same prices and rates in place immediately prior to our initial public offering.

We entered into additional agreements with Martin Resource Management in connection with the closing of the Tesoro Marine asset acquisition whereby:

We provide terminalling services to Martin Resource Management under a terminal services agreement. The per gallon throughput fee we charge under this agreement is fixed during the first year of the agreement and is adjusted annually based on a price index. The fee was based on comparable market rates for arms-length negotiated fees. Martin Resource Management has agreed to a minimum annual total throughput, as a result of which, at the first year fee rate, we will receive at least \$2.3 million from Martin Resource Management. This agreement has a three-year term, which began in December 2003 and will automatically renew on a month-to-month basis

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until 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.

We provide marine transportation services to Martin Resource Management under a transportation services agreement. The per gallon fee we charge under this agreement is fixed during the first year of the agreement and is adjusted annually based upon mutual agreement of the parties or in accordance with a price index. The fee was based on comparable market rates for arms-length negotiated fees. This agreement has a three-year term, which began in December 2003, and will automatically renew for successive one-year terms 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. In addition, within 30-days of the expiration of the then-applicable term, both parties have the right to renegotiate the rate for the use of our vessels. If no agreement is reached as to a new rate by the end of the then-applicable term, the agreement will terminate.

Martin Resource Management provides terminal services to us under a lubricants and drilling fluids terminal services agreement. The per gallon handling fee and the percentage of our commissions we are charged under this agreement is fixed during the first year of the agreement and is adjusted annually based on a price index. The handling fee and percentage of our commissions were based on Tesoro Marine's historic allocated costs. We have agreed to a minimum annual total handling quantity and commission, as a result of which, at the first year fee rate, we will pay Martin Resource Management a minimum of \$0.5 million. This agreement has a one-year term, which began in December 2003, and will automatically renew for successive one-year terms unless either party terminates the agreement by giving written notice to the other party at least 60 days prior to the end of then-applicable term.

Martin Resource Management directs our business operations through its ownership and control of our general partner and under an omnibus agreement, which was entered into on November 1, 2002. We are required to reimburse Martin Resource Management for all direct and indirect expenses it incurs or payments it makes on our behalf or in connection with the operation of our business. Under the omnibus agreement, the amount we are required to reimburse Martin Resource Management for indirect general and administrative expenses and corporate overhead allocated to us was capped at \$1.0 million during the first year of the agreement. For the year ending October 31, 2004, the cap has been increased to \$2.0 million. In each of the subsequent three years, this amount may be increased by no more than the percentage increase in the consumer price index for the applicable year. For the year ending October 31, 2004, the amount we are required to reimburse Martin Resource Management for indirect general and administrative expenses and corporate overhead allocated to us is capped at \$2.0 million. In addition, our general partner has the right to agree to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses.

Our Relationship with CF Martin Sulphur, L.P.

We are both an important supplier to and customer of CF Martin Sulphur, L.P. We have chartered one of our offshore tug/barge tanker units to CF Martin Sulphur, L.P. for a guaranteed daily rate, subject to certain adjustments. This charter has an unlimited term but may be cancelled by CF Martin Sulphur, L.P. upon 90 days notice. CF Martin Sulphur, L.P. paid to have this tug/barge tanker unit reconfigured to carry molten sulfur. In the event CF Martin Sulphur, L.P. terminates this charter agreement, we are obligated to reimburse CF Martin Sulphur, L.P. for a portion of such reconfiguration costs. As of September 30, 2003, our aggregate reimbursement liability would have been approximately \$2.1 million. This amount decreases by approximately \$300,000 annually based on an amortization rate.

We did not have significant revenues from CF Martin Sulphur, L.P. prior to 2002.

In addition, we purchase all our sulfur from CF Martin Sulphur, L.P. at its cost under a sulfur supply contract. This agreement has an annual term, which is renewable for subsequent one-year periods.

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We only own an unconsolidated non-controlling 49.5% limited partner interest in CF Martin Sulphur, L.P. CF Martin Sulphur, L.P. is managed by its general partner which is jointly owned and controlled by CF Industries and Martin Resource Management. Martin Resource Management also conducts the day-to-day operations of CF Martin Sulphur, L.P. under a long-term services agreement. Please read Business CF Martin Sulphur, L.P.

Results of Operations

The results of operations for the years ended December 31, 2001 and 2000 and the nine months ended September 30, 2002 have been derived from the combined financial statements of Martin Midstream Partners Predecessor. The combined results of operations for the year ended December 31, 2002 have been derived from the combined financial statements of Martin Midstream Partners Predecessor for the period from January 1, 2002 through November 5, 2002 and the consolidated financial statements of Martin Midstream Partners, L.P. for the period from November 6, 2002 through December 31, 2002. The results of operations for the nine months ended September 30, 2003 have been derived from the financial statements of Martin Midstream Partners L.P.

	Year Ended December 31,			Nine Months Ended September 30,	
	2002	2001	2000	2003	2002
(In thousands)					
Revenues:					
Marine transportation	\$ 24,440	\$ 28,637	\$ 26,060	\$ 19,582	\$ 17,827
Terminalling	5,158	4,368	3,978	5,038	3,741
Product sales:					
LPG distribution	92,408	98,615	143,799	95,335	59,217
Fertilizer	27,900	31,498	25,976	20,143	20,557
	<u>120,308</u>	<u>130,113</u>	<u>169,775</u>	<u>115,478</u>	<u>79,774</u>
Total revenues	<u>149,906</u>	<u>163,118</u>	<u>199,813</u>	<u>140,098</u>	<u>101,342</u>
Costs and expenses:					
Cost of products sold:					
LPG distribution	87,190	93,664	128,834	92,116	55,606
Fertilizer	23,318	26,103	21,229	17,579	17,061
	<u>110,508</u>	<u>119,767</u>	<u>150,063</u>	<u>109,695</u>	<u>72,667</u>
Expenses:					
Operating expenses	19,710	20,472	25,993	14,908	14,725
Selling, general and administrative	6,624	7,513	7,880	4,576	4,953
Depreciation and amortization	4,488	4,122	6,413	3,515	3,356
	<u>141,330</u>	<u>151,874</u>	<u>190,349</u>	<u>132,694</u>	<u>95,701</u>
Total costs and expenses	<u>141,330</u>	<u>151,874</u>	<u>190,349</u>	<u>132,694</u>	<u>95,701</u>
Operating income	<u>8,576</u>	<u>11,244</u>	<u>9,464</u>	<u>7,404</u>	<u>5,641</u>
Other income (expense):					
Equity in earnings of unconsolidated entities	3,164	1,477	192	2,308	2,236
Interest expense	(3,628)	(5,390)	(7,949)	(1,442)	(2,976)
Other, net	47	82	70	68	36

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Total other income (expense)	(417)	(3,831)	(7,687)	934	(704)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income before income taxes	\$ 8,159	\$ 7,413	\$ 1,777	\$ 8,338	\$ 4,937
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Prior to November 6, 2002, our consolidated and combined financial statements reflected our operations as being subject to income taxes. Subsequent to November 6, 2002, we are not subject to income taxes due to our partnership structure. Therefore, we believe a more meaningful comparison of the results of our operations is income before income taxes.

Our effective income tax rates for the period from January 1, 2002 through November 5, 2002, the nine months ended September 30, 2002, and the years ended December 31, 2001 and 2000 were 37%, 37%, 37% and 48%, respectively. Our effective income tax rates for the periods we were taxable differed from the federal tax rate of 34% primarily as a result of state income taxes and the non-deductibility of certain goodwill amortization for book purposes.

We evaluate segment performance on the basis of operating income, which is derived by subtracting cost of products sold, operating expenses, selling, general and administrative expenses, and depreciation and amortization expense from revenues. The following table sets forth our operating income by segment, and equity in earnings of unconsolidated entities, for the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001, and 2000.

	Year Ended December 31,			Nine Months Ended September 30,	
	2002	2001	2000	2003	2002
	(In thousands)				
Marine transportation	\$ 3,858	\$ 7,787	\$5,395	\$ 3,948	\$2,516
Terminalling	2,328	1,750	418	2,675	1,617
LPG distribution	2,237	1,064	3,880	1,407	1,249
Fertilizer	1,164	1,402	624	721	807
Indirect selling, general, and administrative expenses	(1,011)	(759)	(853)	(1,347)	(548)
Operating income	\$ 8,576	\$11,244	\$9,464	\$ 7,404	\$5,641
Equity in earnings of unconsolidated entities	\$ 3,164	\$ 1,477	\$ 192	\$ 2,308	\$2,236

Our results of operations are discussed on a comparative basis below. We discuss items we do not allocate on a segment basis, such as equity in earnings of unconsolidated entities, interest expense, income tax expenses, and indirect selling, general and administrative expenses, after the comparative discussion of our results within each segment.

Nine Months Ended September 30, 2003 Compared to the Nine Months Ended September 30, 2002

Our total revenues were \$140.1 million for the nine months ended September 30, 2003 compared to \$101.3 million for the nine months ended September 30, 2002, an increase of \$38.8 million, or 38%. Our cost of products sold was \$109.7 million for the nine months ended September 30, 2003 compared to \$72.7 million for the nine months ended September 30, 2002, an increase of \$37.0 million, or 51%. Our total operating expenses were \$14.9 million for the nine months ended September 30, 2003 compared to \$14.7 million for the nine months ended September 30, 2002, an increase of \$0.2 million, or 1%.

Our total selling, general and administrative expenses were \$4.6 million for the nine months ended September 30, 2003 compared to \$5.0 million for the nine months ended September 30, 2002, a decrease of \$0.4 million, or 8%. Total depreciation and amortization was \$3.5 million for the nine months ended September 30, 2003 compared to \$3.4 million for the nine months ended September 30, 2002, an increase of \$0.2 million, or 5%. Our operating income was \$7.4 million for the nine months ended September 30, 2003 compared to \$5.6 million for the nine months ended September 30, 2002, an increase of \$1.8 million, or 31%.

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The results of operations are described in greater detail on a segment basis below.

Marine Transportation Business

The following table summarizes our results of operations in our marine transportation segment.

	Nine Months Ended September 30,	
	2003	2002
	(In thousands)	
Revenues	\$ 19,582	\$ 17,827
Operating expenses	13,064	12,790
Operating margin	6,518	5,037
Selling, general and administrative expenses	194	401
Depreciation and amortization	2,376	2,120
Operating income	\$ 3,948	\$ 2,516

Revenues. Our marine transportation revenues increased \$1.8 million, or 10%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. Approximately \$0.6 million of this increase was due to two offshore barge units that were fully utilized in the first nine months of 2003. These units were in the shipyard in the first quarter of 2002. One of the offshore barge units was in the shipyard while being converted from fuel oil service to sulfur service. This unit is currently fully utilized under a term contract with CF Martin Sulphur, L.P. The other offshore barge unit was in the shipyard for routine repairs and maintenance. The remaining increase in revenues of \$1.2 million was a result of increased utilization of our inland barge fleet as there was increased demand by industrial users of fuel oil as this product was an economic substitute for higher cost natural gas.

Operating expenses. Operating expenses increased \$0.3 million, or 2%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. Reduced maintenance and lease expenses of \$0.9 million were more than offset by salaries, benefits, supplies and other operating expenses.

Selling, general, and administrative expenses. Selling, general and administrative expenses decreased \$0.2 million, or 52% for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002.

Depreciation and amortization. Depreciation and amortization increased \$0.3 million, or 12%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This increase was due primarily to depreciation of capital expenditures made during 2002.

In summary, our marine transportation operating income increased \$1.4 million, or 57%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002.

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The following table summarizes our results of operations in our terminalling segment.

	Nine Months Ended September 30,	
	2003	2002
	(In thousands)	
Revenues	\$ 5,038	\$ 3,741
Operating expenses	1,076	928
Operating margin	3,962	2,813
Selling, general and administrative expenses	901	940
Depreciation and amortization	386	256
Operating income	\$ 2,675	\$ 1,617

Revenues. Our terminalling revenues increased \$1.3 million, or 35%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This increase was due primarily to additional revenue generated by our two newly constructed asphalt tanks which were put into service in May 2002 and an increase in rates for certain terminalling contracts at our Tampa terminal.

Operating expenses. Operating expenses increased \$0.1 million, or 16%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This increase was due primarily to increased gas utility expense.

Selling, general and administrative expenses. Selling, general and administrative expenses were \$0.9 million for both nine month periods.

Depreciation and amortization. Depreciation and amortization increased \$0.1 million, or 51%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This increase was due to new asphalt tanks put in service in May, 2002.

In summary, our terminalling operating income increased \$1.1 million, or 65%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002.

LPG Distribution Business

The following table summarizes our results of operations in our LPG distribution segment.

	Nine Months Ended September 30,	
	2003	2002
	(In thousands)	
Revenues	\$ 95,335	\$ 59,217
Cost of products sold	92,116	55,605
Operating expenses	768	1,003

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Operating margin	2,451	2,609
Selling, general and administrative expenses	960	1,091
Depreciation and amortization	84	269
	<u> </u>	<u> </u>
Operating income	\$ 1,407	\$ 1,249
	<u> </u>	<u> </u>
LPG Volumes (gallons)	139,707	120,512
	<u> </u>	<u> </u>

Revenues. Our LPG distribution revenue increased \$36.1 million, or 61%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This increase was due to both volume and price increases. Our volume for the nine months ended September 30, 2003 was 16%

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greater than the nine months ended September