MARTIN MIDSTREAM PARTNERS LP
Form 10-Q
May 07, 2007

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

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from __________ to __________

Commission File Number
000-50056
MARTIN MIDSTREAM PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware	**05-0527861**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4200 Stone Road
Kilgore, Texas 75662
(Address of principal executive offices, zip code)
Registrant s telephone number, including area code: **(903) 983-6200**

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

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

The number of the registrant s Common Units outstanding at May 7, 2007 was 10,606,808. The number of the registrant s subordinated units outstanding at May 7, 2007 was 2,552,018.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)
Assets		
Cash	$ 4,578	$ 3,675
Accounts and other receivables, less allowance for doubtful accounts of $242 and $394	58,676	56,712
Product exchange receivables	1,982	7,076
Inventories	26,169	33,019
Due from affiliates	1,100	1,330
Other current assets	1,317	2,041
Total current assets	93,822	103,853
Property, plant, and equipment, at cost	339,731	323,967
Accumulated depreciation	(80,860)	(76,122)
Property, plant and equipment, net	258,871	247,845
Goodwill	27,600	27,600
Investment in unconsolidated entities	73,406	70,651
Other assets, net	6,594	7,512
	$ 460,293	$ 457,461
Liabilities and Partners Capital		
Current installments of long-term debt	$ 75	$ 74
Trade and other accounts payable	55,239	53,450
Product exchange payables	6,018	14,737
Due to affiliates	7,959	10,474
Income taxes payable	276	86
Other accrued liabilities	3,293	3,876
Total current liabilities	72,860	82,697
Long-term debt	190,001	174,021
Other long-term obligations	2,671	2,218

Total liabilities	265,532	258,936
Partners capital	195,750	198,403
Accumulated other comprehensive income (loss)	(989)	122
Total partners capital	194,761	198,525
Commitments and contingencies		
	$ 460,293	$ 457,461

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended March 31, 2007	2006
Revenues:		
Terminalling and storage	$ 6,951	$ 5,756
Marine transportation	13,884	9,312
Product sales:		
Natural gas services	101,788	101,924
Sulfur	15,171	15,389
Fertilizer	14,209	12,025
Terminalling and storage	3,793	2,416
	134,961	131,754
Total revenues	155,796	146,822
Costs and expenses:		
Cost of products sold:		
Natural gas services	96,772	98,083
Sulfur	10,337	10,471
Fertilizer	11,464	11,000
Terminalling and storage	3,015	1,999
	121,588	121,553
Expenses:		
Operating expenses	18,993	13,900
Selling, general and administrative	2,721	2,386
Depreciation and amortization	4,894	3,952
Total costs and expenses	148,196	141,791
Other operating income		853
Operating income	7,600	5,884
Other income (expense):		
Equity in earnings of unconsolidated entities	2,050	2,412
Interest expense	(3,577)	(3,018)
Debt prepayment premium		(1,160)
Other, net	79	169
Total other income (expense)	(1,448)	(1,597)
Net income before taxes	6,152	4,287

Income taxes		349		
Net income	$	5,803	$	4,287
General partner s interest in net income	$	275	$	246
Limited partners interest in net income	$	5,528	$	4,041
Net income per limited partner unit basic and diluted	$	0.42	$	0.33
Weighted average limited partner units basic		13,152,826		12,299,009
Weighted average limited partner units diluted		13,155,125		12,301,980

See accompanying notes to consolidated and condensed financial statements.

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

	Partners Capital						
	Common		Subordinated		General Partner	Accumulated Other Comprehensive Income	
	Units	Amount	Units	Amount	Amount	Amount	Total
Balances January 1, 2006	5,829,652	$ 100,206	3,402,690	$ (5,642)	$ 1,001	$	$ 95,565
Net income		2,984		1,057	246		4,287
Follow-on public offering	3,450,000	95,273					95,273
General partner contribution					2,052		2,052
Unit-based compensation	3,000	4					4
Cash distributions		(5,662)		(2,076)	(277)		(8,015)
Adjustment in fair value of derivatives						(226)	(226)
Balances March 31, 2006	9,282,652	$ 192,805	3,402,690	$ (6,661)	$ 3,022	$ (226)	$ 188,940
Balances January 1, 2007	10,603,808	$ 201,387	2,552,018	$ (6,237)	$ 3,253	$ 122	$ 198,525
Net income		4,608		920	275		5,803
Cash distributions		(6,574)		(1,582)	(311)		(8,467)
Unit-based compensation		11					11
Adjustment in fair value of derivatives						(1,111)	(1,111)

Balances March 31, 2007	10,603,808	$ 199,432	2,552,018	$ (6,899)	$ 3,217	$ (989)	$ 194,761

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended March 31,	
	2007	**2006**
Net income	$ 5,803	$ 4,287
Changes in fair values of commodity cash flow hedges	(164)	(226)
Commodity hedging losses reclassified to earnings	(432)	
Changes in fair value of interest rate cash flow hedges	(515)	
Comprehensive income	$ 4,692	$ 4,061

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended March 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 5,803	$ 4,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,894	3,952
Amortization of deferred debt issuance costs	270	249
(Gain) on involuntary conversion of property, plant and equipment		(853)
Equity in earnings of unconsolidated entities	(2,050)	(2,412)
Distributions from unconsolidated entities	200	160
Distributions in-kind from equity investments	1,853	1,932
Non-cash mark-to-market on derivatives	593	82
Other	11	8
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:		
Accounts and other receivables	(1,964)	16,967
Product exchange receivables	5,094	(2,910)
Inventories	6,850	2,067
Due from affiliates	230	(1,739)
Other current assets	26	(128)
Trade and other accounts payable	1,789	(19,995)
Product exchange payables	(8,719)	1,658
Due to affiliates	(2,515)	2,854
Income taxes payable	190	(5,060)
Other accrued liabilities	(770)	(1,556))
Change in other non-current assets and liabilities	126	(35)
Net cash provided (used) by operating activities	11,911	(472)
Cash flows from investing activities:		
Payments for property, plant and equipment	(15,764)	(19,101)
Acquisitions, net of cash acquired		(7,451)
Proceeds from sale of property, plant and equipment		720
Return of investments from unconsolidated entities	1,125	150
Investments in unconsolidated entities	(3,883)	(546)
Net cash used in investing activities	(18,522)	(26,228)
Cash flows from financing activities:		
Payments of long-term debt	(25,119)	(82,904)

Proceeds from long-term debt	41,100	19,100
Net proceeds from follow on public offering		95,273
Payments of debt issuance costs		(12)
General partner contribution		2,052
Cash distributions paid	(8,467)	(8,015)
Net cash provided by financing activities	7,514	25,494
Net increase (decrease) in cash	903	(1,206)
Cash at beginning of period	3,675	6,465
Cash at end of period	$ 4,578	$ 5,259

See accompanying notes to consolidated and condensed financial statements.

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2007
(Unaudited)

(1) General

Martin Midstream Partners L.P. (the Partnership) is a publicly traded limited partnership which provides terminalling and storage services for petroleum products and by-products, natural gas services, marine transportation services for petroleum products and by-products, sulfur gathering, processing and distribution and fertilizer manufacturing and distribution.

The Partnership s unaudited consolidated and condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and U.S. generally accepted accounting principles for interim financial reporting. Accordingly, these financial statements have been condensed and do not include all of the information and footnotes required by generally accepted accounting principles for annual audited financial statements of the type contained in the Partnership s annual reports on Form 10-K. In the opinion of the management of the Partnership s general partner, all adjustments and elimination of significant intercompany balances necessary for a fair presentation of the Partnership s results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for such interim periods are not necessarily indicative of the results of operations for the full year. These financial statements should be read in conjunction with the Partnership s audited consolidated financial statements and notes thereto included in the Partnership s annual report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission (the SEC) on March 5, 2007.

(a) Use of Estimates

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

(b) Unit Grants

In January 2006, the Partnership issued 1,000 restricted common units to each of its three independent, non-employee directors under its long-term incentive plan. These units vest in 25% increments on the anniversary of the grant date each year and will be fully vested in January 2010. The Partnership accounts for the transaction under *Emerging Issues Task Force 96-18 Accounting for Equity Instruments That are Issued to other than Employees For Acquiring, or in Conjunction with Selling, Goods or Services.* The cost resulting from the share-based payment transactions was $11 and $4 for the three months ended March 31, 2007 and 2006. The Partnership s general partner contributed $2 in cash to the Partnership in conjunction with the issuance of these restricted units in order to maintain its 2% general partner interest in the Partnership.

(c) Incentive Distribution Rights

The Partnership s general partner, Martin Midstream GP LLC, holds a 2% general partner interest and certain incentive distribution rights in the Partnership. Incentive distribution rights represent the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution, any cumulative arrearages on common units, and certain target distribution levels have been achieved. The Partnership is required to distribute all of its available cash from operating surplus, as defined in the partnership agreement. The target distribution levels entitle the general partner to receive 15% of quarterly cash distributions in excess of $0.55 per unit until all unitholders have received $0.625 per unit, 25% of quarterly cash distributions in excess of $0.625 per unit until all unitholders have received $0.75 per unit, and 50% of quarterly cash distributions in excess of $0.75 per unit. For the three months ended March 31, 2007 and 2006, the general partner received $163 and $134 in incentive distributions.

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March 31, 2007
(Unaudited)

(d) Net Income per Unit

Except as discussed in the following paragraph, basic and diluted net income per limited partner unit is determined by dividing net income after deducting the amount allocated to the general partner interest (including its incentive distribution in excess of its 2% interest) by the weighted average number of outstanding limited partner units during the period. Subject to applicability of *Emerging Issues Task Force Issue No. 03-06 (EITF 03-06), Participating Securities and the Two-Class Method under FASB Statement No. 128,* as discussed below, Partnership income is first allocated to the general partner based on the amount of incentive distributions. The remainder is then allocated between the limited partners and general partner based on percentage ownership in the Partnership.

EITF 03-06 addresses the computation of earnings per share by entities that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the entity when, and if, it declares dividends on its common stock. Essentially, EITF 03-06 provides that in any accounting period where the Partnership s aggregate net income exceeds the Partnership s aggregate distribution for such period, the Partnership is required to present earnings per unit as if all of the earnings for the periods were distributed, regardless of the pro forma nature of this allocation and whether those earnings would actually be distributed during a particular period from an economic or practical perspective. EITF 03-06 does not impact the Partnership s overall net income or other financial results; however, for periods in which aggregate net income exceeds the Partnership s aggregate distributions for such period, it will have the impact of reducing the earnings per limited partner unit. This result occurs as a larger portion of the Partnership s aggregate earnings is allocated to the incentive distribution rights held by the Partnership s general partner, as if distributed, even though the Partnership makes cash distributions on the basis of cash available for distributions, not earnings, in any given accounting period. In accounting periods where aggregate net income does not exceed the Partnership s aggregate distributions for such period, EITF 03-06 does not have any impact on the Partnership s earnings per unit calculation.

The weighted average units outstanding for basic net income per unit were 13,152,826 and 12,299,009 for the three months ended March 31, 2007 and 2006. For diluted net income per unit, the weighted average units outstanding were increased by 2,299 and 2,971 for the three months ended March 31, 2007 and 2006, due to the dilutive effect of restricted units granted under the Partnership s long-term incentive plan.

(2) Subsequent Event

On May 2, 2007, the Partnership acquired the outstanding stock of Woodlawn Pipeline Company, Inc. (Woodlawn), a natural gas gathering and processing company with integrated gathering and processing assets in East Texas for $30,638. In addition, the Partnership purchased a compressor for $400 from an affiliate of the selling parties. In conjunction with this transaction, the Partnership also acquired a pipeline that delivers residue gas from the Woodlawn gas processing plant to the Texas Eastern Transmission pipeline system for $2,139.

(3) Inventories

Components of inventories at March 31, 2007 and 2006 were as follows:

	March 31, 2007	December 31, 2006
Natural gas liquids	$ 11,387	$ 17,061
Sulfur	2,445	4,397
Fertilizer raw materials and packaging	2,603	2,412
Fertilizer finished goods	5,152	4,807
Lubricants	3,018	2,592
Other	1,564	1,750

	$ 26,169	$ 33,019

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2007
(Unaudited)

(4) Investment in Unconsolidated Partnerships and Joint Ventures

The Partnership, through its subsidiary Prism Gas Systems I, L.P. (Prism Gas), owns 50% ownership interests in Waskom Gas Processing Company (Waskom), Matagorda Offshore Gathering System (Matagorda) and Panther Interstate Pipeline Energy LLC (PIPE). Each of these interests are accounted for under the equity method of accounting.

On June 30, 2006, the Partnership, through its Prism Gas subsidiary, acquired a 20% ownership interest in a partnership for approximately $196, which owns the lease rights to the assets of the Bosque County Pipeline (BCP). BCP is an approximate 67 mile pipeline located in the Barnett Shale extension. The pipeline traverses four counties with the most concentrated drilling occurring in Bosque County. BCP is operated by Panther Pipeline Ltd. who is the 42.5% interest owner. This interest is accounted for under the equity method of accounting.

In accounting for the acquisition of the interests in Waskom, Matagorda and PIPE, the carrying amount of these investments exceeded the underlying net assets by approximately $46,176. The difference was attributable to property and equipment of $11,872 and equity method goodwill of $34,304. The excess investment relating to property and equipment is being amortized over an average life of 20 years, which approximates the useful life of the underlying assets. Such amortization amounted to $148 for the three months ended March 31, 2007 and has been recorded as a reduction of equity in earnings of unconsolidated equity method investees. The remaining unamortized excess investment relating to property and equipment was $11,131 and $11,279 at March 31, 2007 and December 31, 2006. The equity-method goodwill is not amortized in accordance with SFAS 142; however, it is analyzed for impairment annually. No impairment was recognized in the first quarter of 2007 or the year ended December 31, 2006.

As a partner in Waskom, the Partnership receives distributions in kind of natural gas liquids that are retained according to Waskom s contracts with certain producers. The natural gas liquids are valued at prevailing market prices. In addition, cash distributions are received and cash contributions are made to fund operating and capital requirements of Waskom.

Activity related to these investment accounts is as follows:

	Waskom	PIPE	Matagorda	BCP	Total
Investment in unconsolidated entities, December 31, 2005	$ 54,087	$ 1,723	$ 4,069	$	$ 59,879
Distributions in kind	(1,932)				(1,932)
Cash contributions	546				546
Cash distributions	(150)		(160)		(310)
Equity in earnings:					
Equity in earnings from operations	2,174	68	170		2,412
Investment in unconsolidated entities, March 31, 2006	$ 54,725	$ 1,791	$ 4,079	$	$ 60,595
Investment in unconsolidated entities, December 31, 2006	$ 64,937	$ 1,718	$ 3,786	$ 210	$ 70,651
Distributions in kind	(1,853)				(1,853)
Cash contributions	3,883				3,883
Cash distributions	(1,125)	(200)			(1,325)
Equity in earnings:					

Equity in earnings from operations	1,864	293	74	(33)	2,198
Amortization of excess investment	(137)	(4)	(7)		(148)
Investment in unconsolidated entities, March 31, 2007	$ 67,569	$ 1,807	$ 3,853	$ 177	$ 73,406

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

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2007
(Unaudited)

	As of March 31,		Three Months Ended March 31,	
	Total Assets	Partner s Capital	Revenues	Net Income
2007				
Waskom	$ 58,977	$ 50,989	$ 14,799	$ 3,729
	As of December 31,			
2006				
Waskom	$ 53,260	$ 45,450	$ 16,799	$ 4,543

(5) Commodity Cash Flow Hedges

The Partnership is exposed to market risks associated with commodity prices, counterparty credit and interest rates. Historically, the Partnership has not engaged in commodity contract trading or hedging activities. However, in connection with the acquisition of Prism Gas, the Partnership has established a hedging policy and monitors and manages the commodity market risk associated with the commodity risk exposure of the Prism Gas acquisition. In addition, the Partnership is focusing on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction.

The Partnership uses derivatives to manage the risk of commodity price fluctuations**.** Additionally, the Partnership manages interest rate exposure by targeting a ratio of fixed and floating interest rates it deems prudent and using hedges to attain that ratio.

In accordance with Statement of Financial Accounting Standards No. 133 (SFAS No. 133), *Accounting for Derivative Instruments and Hedging Activities*, all derivatives and hedging instruments are included on the balance sheet as an asset or a liability measured at fair value and changes in fair value are recognized currently in earnings unless specific hedge accounting criteria are met. If a derivative qualifies for hedge accounting, changes in the fair value can be offset against the change in the fair value of the hedged item through earnings or recognized in other comprehensive income until such time as the hedged item is recognized in earnings. In early 2006, the Partnership adopted a hedging policy that allows it to use hedge accounting for financial transactions that are designated as hedges.

Derivative instruments not designated as hedges are being marked to market with all market value adjustments being recorded in the consolidated statements of operations. As of March 31, 2007, the Partnership has designated a portion of its derivative instruments as qualifying cash flow hedges. Fair value changes for these hedges have been recorded in other comprehensive income as a component of equity. During the three months ended March 31, 2007, certain of the Partnership s derivative instruments which were designated as hedges became ineffective due to fluctuations in the basis difference between the hedged item and the hedging instrument. As a result, these hedges are now marked to market through the statement of operations for the three months ended March 31, 2007.

The components of gain/loss on derivatives qualifying for hedge accounting and those that do not are included in the revenue of the hedged item in the Consolidated Statements of Operations as follows:

	Three Months Ended March 31,	
	2007	2006

Change in fair value of derivatives that do not qualify for hedge accounting	$ (283)	$ 286
Ineffective portion of derivatives	124	(11)
Change in fair value of derivatives in the Consolidated Statement of Operations	$ (159)	$ 275

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2007
(Unaudited)

The fair value of derivative assets and liabilities are as follows:

	March 31, 2007	December 31, 2006
Fair value of derivative assets current	$ 318	$ 882
Fair value of derivative assets long term		221
Fair value of derivative liabilities current	(186)	
Fair value of derivative liabilities long term	(196)	(74)
Net fair value of derivatives	$ (64)	$ 1,029

Set forth below is the summarized notional amount and terms of all instruments held for price risk management purposes at March 31, 2007 (all gas quantities are expressed in British Thermal Units, crude oil and natural gas liquids are expressed in barrels). As of March 31, 2007, the remaining term of the contracts extend no later than December 2009, with no single contract longer than one year. The Partnership s counterparties to the derivative contracts include Coral Energy Holding LP, Morgan Stanley Capital Group Inc. and Wachovia Bank. For the three months ended March 31, 2007, changes in the fair value of the Partnership s derivative contracts were recorded in both earnings and in other comprehensive income as a component of equity since the Partnership has designated a portion of its derivative instruments as hedges as of March 31, 2007.

March 31, 2007

Transaction Type	Total Volume Per Month	Pricing Terms	Remaining Terms of Contracts	Fair Value
Mark to Market Derivatives:				
Ethane Swap	8,000 BBL	Fixed price of $28.04 settled against Mt. Belvieu Purity Ethane average monthly postings	April 2007 to December 2007	$ 4
Crude Oil swap	5,000 BBL	Fixed price of $65.95 settled against WTI NYMEX average monthly closings	April 2007 to December 2007	129
Natural Gas swap and Natural Gas basis swap	20,000 MMBTU	Combined fixed price of $8.54 settled against Inside FERC Centerpoint Energy Gas Transmission Co.	April 2007 to December 2007	185
Natural Gas swap	30,000 MMBTU	Fixed price of $8.12 settled against Inside FERC Houston Ship Channel first of the month	January 2008 to December 2008	(145)
Crude Oil Swap	3,000 BBL	Fixed price of $69.08 settled against WTI NYMEX average monthly closings	January 2009 to December 2009	(13)

Total swaps not designated as cash flow hedges				$ 160
Cash Flow Hedges:				
Crude Oil Swap	5,000 BBL	Fixed price of $66.20 settled against WTI NYMEX average monthly closings	January 2008 to December 2008	(224)
Total swaps designated as cash flow hedges				$ (224)
Total net fair value of derivatives				$ (64)

On all transactions where the Partnership is exposed to counterparty risk, the Partnership analyzes the counterparty s financial condition prior to entering into an agreement, and has established a maximum credit limit threshold pursuant to its hedging policy, and monitors the appropriateness of these limits on an ongoing basis. The Partnership has incurred no losses associated with the counterparty non-performance on derivative contracts.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
March 31, 2007
(Unaudited)

As a result of the Prism Gas acquisition, the Partnership is exposed to the impact of market fluctuations in the prices of natural gas, natural gas liquids (NGLs) and condensate as a result of gathering, processing and sales activities. Prism Gas gathering and processing revenues are earned under various contractual arrangements with gas producers. Gathering revenues are generated through a combination of fixed-fee and index-related arrangements. Processing revenues are generated primarily through contracts which provide for processing on percent-of-liquids (POL) and percent-of-proceeds (POP) basis. Prism Gas has entered into hedging transactions through 2009 to protect a portion of its commodity exposure from these contracts. These hedging arrangements are in the form of swaps for crude oil, natural gas and ethane.

Based on estimated volumes, as of March 31, 2007, Prism Gas had hedged approximately 55%, 46%, and 14% of its commodity risk by volume for 2007, 2008, and 2009, respectively. The Partnership anticipates entering into additional commodity derivatives on an ongoing basis to manage its risks associated with these market fluctuations, and will consider using various commodity derivatives, including forward contracts, swaps, collars, futures and options, although there is no assurance that the Partnership will be able to do so or that the terms thereof will be similar to the Partnership s existing hedging arrangements. In addition, the Partnership will consider derivative arrangements that include the specific NGL products as well as natural gas and crude oil.

Hedging Arrangements in Place

Year	Commodity Hedged	Volume	Type of Derivative	Basis Reference
2007	Condensate & Natural Gasoline	5,000 BBL/Month	Crude Oil Swap ($65.95)	NYMEX
2007	Natural Gas	20,000 MMBTU/Month	Natural Gas Swap ($9.14)	Henry Hub
2007	Natural Gas	20,000 MMBTU/Month	Natural Gas Basis Swap (-$0.60)	Henry Hub to Centerpoint East
2007	Ethane	8,000 BBL/Month	Ethane Swap ($28.04)	Mt. Belvieu
2008	Condensate & Natural Gasoline	5,000 BBL/Month	Crude Oil Swap ($66.20)	NYMEX
2008	Natural Gas	30,000 MMBTU/Month	Natural Gas Swap ($8.12)	Houston Ship Channel
2009	Condensate & Natural Gasoline	3,000 BBL/Month	Crude Oil Swap ($69.08)	NYMEX

The Partnership s principal customers with respect to Prism Gas natural gas gathering and processing are large, natural gas marketing services, oil and gas producers and industrial end-users. In addition, substantially all of the Partnership s natural gas and NGL sales are made at market-based prices. The Partnership s standard gas and NGL sales contracts contain adequate assurance provisions which allows for the suspension of deliveries, cancellation of agreements or continuance of deliveries to the buyer unless the buyer provides security for payment in a form satisfactory to the Partnership.

Impact of Cash Flow Hedges

Crude Oil

For the three months ended March 31, 2007 and 2006, net gains and losses on swap hedge contracts increased crude revenue by $143 and decreased crude revenue by $200, respectively. As of March 31, 2007 an unrealized derivative fair value loss of $244, related to cash flow hedges of crude oil price risk, was recorded in other comprehensive income (loss). This fair value loss is expected to be reclassified into earnings in 2008. The actual reclassification to earnings will be based on mark-to-market prices at the contract settlement date, along with the realization of the gain or loss on the related physical volume, which amount is not reflected above.

Natural Gas

For the three months ended March 31, 2007 and 2006, net losses and gains on swap hedge contracts decreased gas revenue by $373 and increased gas revenue by $321, respectively. As of March 31, 2007, there is no unrealized derivative fair value gain (loss) related to cash flow hedges of natural gas price risk recorded in other comprehensive income (loss).

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Natural Gas Liquids

For the three months ended March 31, 2007 and 2006, net gains on swap hedge contracts increased liquids revenue by $71 and $154, respectively. As of March 31, 2007, there is no unrealized derivative fair value gain (loss) related to cash flow hedges of ethane price risk recorded in other comprehensive income (loss).

(6) Interest Rate Cash Flow Hedge

In April 2006, the Partnership entered into a cash flow hedge agreement with a notional amount of $75,000 to hedge its exposure to increases in the benchmark interest rate underlying its variable rate term loan credit facility. This interest rate swap matures in November 2010. The Partnership designated this swap agreement as a cash flow hedge. Under the swap agreement, the Partnership pays a fixed rate of interest of 5.25% and receives a floating rate based on a three-month U.S. Dollar LIBOR rate. Because this is designated as a cash flow hedge, the changes in fair value, to the extent the swap is effective, are recognized in other comprehensive income until the hedged interest costs are recognized in earnings. At the inception of the hedge, the swap was identical to the hypothetical swap as of the trade date, and will continue to be identical as long as the accrual periods and rate resetting dates for the debt and the swap remain equal. This condition results in a 100% effective swap.

In December 2006, the Partnership entered into a cash flow hedge agreement with a notional amount of $40,000 to hedge its exposure to increases in the benchmark interest rate underlying its variable rate revolving credit facility. This interest rate swap matures in December 2009. The Partnership designated this swap agreement as a cash flow hedge. Under the swap agreement, the Partnership pays a fixed rate of interest of 4.82% and receives a floating rate based on a three-month U.S. Dollar LIBOR rate. Because this is designated as a cash flow hedge, the changes in fair value, to the extent the swap is effective, are recognized in other comprehensive income until the hedged interest costs are recognized in earnings. At the inception of the hedge, the swap was identical to the hypothetical swap as of the trade date, and will continue to be identical as long as the accrual periods and rate resetting dates for the debt and the swap remain equal. This condition results in a 100% effective swap.

In December 2006, the Partnership entered into an interest rate swap that swaps $30,000 of floating rate to fixed rate. The fixed rate cost is 4.765% plus the Partnership s applicable LIBOR borrowing spread. This interest rate swap matures in March 2010. The underlying debt related to this swap was paid prior to December 31, 2006; therefore, hedge accounting was not utilized. The swap has been recorded at fair value at March 31, 2007 with an offset to current operations.

During the quarter ended March 31, 2007, the Partnership recognized decreases in interest expense of less than $100 related to the difference between the fixed rate and the floating rate of interest on the interest rate swaps. The total fair value of the interest rate swaps agreement was a liability of approximately $693 at March 31, 2007.

The fair value of derivative assets and liabilities are as follows:

	March 31, 2007	December 31, 2006
Fair value of derivative assets current	$ 117	$ 377
Fair value of derivative assets long term		112
Fair value of derivative liabilities current		
Fair value of derivative liabilities long term	(810)	(572)
Net fair value of derivatives	$ (693)	$ (83)

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(7) Related Party Transactions

Included in the consolidated and condensed financial statements are various related party transactions and balances primarily with Martin Resource Management Corporation (MRMC) and affiliates. Related party transactions include sales and purchases of products and services between the Partnership and these related entities as well as payroll and associated costs and allocation of overhead.

The impact of these related party transactions is reflected in the consolidated and condensed financial statements as follows:

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Terminalling and storage	$ 2,585	$ 2,051
Marine transportation	6,554	2,465
Product sales:		
Natural gas services		126
Fertilizer	8	24
Terminalling and storage	3	15
	11	165
	$ 9,150	$ 4,681
Costs and expenses:		
Cost of products sold:		
Natural gas services	$ 12,210	$ 13,792
Sulfur	1,105	1,483
Fertilizer	2,873	1,249
Terminalling and storage		1
	$ 16,188	$ 16,525
Expenses:		
Operating expenses Marine transportation	$ 4,162	$ 4,523
Natural gas services	385	394
Sulfur	240	172
Fertilizer	37	38
Terminalling and storage	1,037	939
	$ 5,861	$ 6,066

Selling, general and administrative:				
Natural gas services	$	167	$	165
Sulfur		92		107
Fertilizer		295		275
Terminalling and storage		14		18
Indirect overhead allocation, net of reimbursement		326		326
	$	894	$	891

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(8) Business Segments

The Partnership has five reportable segments: terminalling and storage, natural gas services, marine transportation, sulfur and fertilizer. The Partnership s reportable segments are strategic business units that offer different products and services. The operating income of these segments is reviewed by the chief operating decision maker to assess performance and make business decisions.

The accounting policies of the operating segments are the same as those described in Note 19 in the Partnership s annual report on Form 10-K for the year ended December 31, 2006 filed with the SEC on March 5, 2007. The Partnership evaluates the performance of its reportable segments based on operating income. There is no allocation of administrative expenses or interest expense.

	Operating Revenues	Intersegment Eliminations	Operating Revenues after Eliminations	Depreciation and Amortization	Operating Income (loss) after eliminations	Capital Expenditures
Three months ended March 31, 2007						
Terminalling and storage	$ 10,841	$ (97)	$ 10,744	$ 1,340	$ 2,977	$ 5,006
Natural gas services	101,788		101,788	431	1,944	704
Marine transportation	14,876	(992)	13,884	1,939	1,018	5,103
Sulfur	15,442	(271)	15,171	769	489	537
Fertilizer	14,546	(337)	14,209	415	1928	4,414
Indirect selling, general and administrative					(756)	
Total	$ 157,493	$ (1,697)	$ 155,796	$ 4,894	$ 7,600	$ 15,764
Three months ended March 31, 2006						
Terminalling and storage	$ 8,278	$ (106)	$ 8,172	$ 1,076	$ 2,963	$ 1,940
Natural gas services	101,924		101,924	396	1,248	2,682
Marine transportation	9,622	(310)	9,312	1,411	709	6,676
Sulfur	15,818	(429)	15,389	668	1,459	5,617
Fertilizer	12,107	(82)	12,025	401	222	2,186
Indirect selling, general and administrative					(717)	
Total	$ 147,749	$ (927)	$ 146,822	$ 3,952	$ 5,884	$ 19,101

The following table reconciles operating income to net income:

	Three Months Ended March 31	
	2007	**2006**
Operating income	$ 7,600	$ 5,884
Equity in earnings of unconsolidated entities	2,050	2,412
Interest expense	(3,577)	(3,018)
Debt prepayment premium		(1,160)
Other, net	79	169
Income taxes	(349)	
Net income	$ 5,803	$ 4,287

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Total assets by segment are as follows:

	March 31, 2007	December 31, 2006
Total assets:		
Terminalling and storage	$ 92,745	$ 89,354
Natural gas services	172,324	184,464
Marine transportation	81,781	77,668
Sulfur	61,082	62,210
Fertilizer	52,361	43,765
Total assets	$ 460,293	$ 457,461

(9) Public Offering

In January 2006, the Partnership completed a public offering of 3,450,000 common units at a price of $29.12 per common unit, before the payment of underwriters discounts, commissions and offering expenses (per unit value is in dollars, not thousands). Following this offering, the common units represented a 61.6% limited partnership interest in the Partnership. Total proceeds from the sale of the 3,450,000 common units, net of underwriters discounts, commissions and offering expenses were $95,272. The Partnership s general partner contributed $2,050 in cash to the Partnership in conjunction with the issuance in order to maintain its 2% general partner interest in the Partnership. The net proceeds were used to pay down revolving debt under the Partnership s credit facility and to provide working capital.

A summary of the proceeds received from these transactions and the use of the proceeds received therefrom is as follows (all amounts are in thousands):

Proceeds received:	
Sale of common units	$ 100,464
General partner contribution	2,050
Total proceeds received	$ 102,514
Use of Proceeds:	
Underwriter s fees	$ 4,521
Professional fees and other costs	671
Repayment of debt under revolving credit facility	62,000
Working capital	35,322
Total use of proceeds	$ 102,514

(10) Acquisitions

(a) ***Asphalt Terminals*****.** In August 2006 and October 2006, respectively, the Partnership acquired the assets of Gulf States Asphalt Company LP and Prime Materials and Supply Corporation (Prime), for $4,842 which was allocated to property, plant and equipment. The assets are located in Houston, Texas and Port Neches, Texas. The Partnership entered into an agreement with Martin Resource Management, which Martin Resource Management will operate the facilities through a terminalling service agreement based upon throughput rates and will assume all additional expenses to operate the facility.

(b) ***Corpus Christi Barge Terminal.*** In July 2006, the Partnership acquired a marine terminal located near Corpus Christi, Texas and associated assets from Koch Pipeline Company, LP for $6,200 which was all allocated to property, plant and equipment. The terminal is located on approximately 25 acres of land, and includes three tanks with a combined shell capacity of approximately 240,000 barrels, pump and piping infrastructure for truck unloading and product delivery to two oil docks, and there are several pumps, controls, and an office building on site for administrative use.

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(c) *Marine Vessels*. In November 2006, the Partnership acquired the *La Force*, an offshore tug, for $6,001 from a third party. This vessel is a 5,100 horse power offshore tug that was rebuilt in 1999 with new engines installed in 2005.

In January 2006, the Partnership acquired the *Texan*, an offshore tug, and the *Ponciana*, an offshore NGL barge, for $5,850 from Martin Resource Management. The acquisition price was based on a third-party appraisal. In March 2006, these vessels went into service under a long term charter with a third party. In February 2006, the Partnership acquired the *M450*, an offshore barge, for $1,551 from a third party. In March 2006, this vessel went into service under a one-year evergreen charter with an affiliate of MRMC.

(11) Long-Term Debt

At March 31, 2007 and December 31, 2006, long-term debt consisted of the following:

	March 31, 2007	December 31, 2006
**$120,000 Revolving loan facility at variable interest rate (7.50%* weighted average at March 31, 2007), due November 2010 secured by substantially all of our assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in our operating subsidiaries	$ 60,000	$ 44,000
***$130,000 Term loan facility at variable interest rate (7.69%* at March 31, 2007), due November 2010, secured by substantially all of our assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in our operating subsidiaries	130,000	130,000
Other secured debt maturing in 2008, 7.25%	76	95
Total long-term debt	190,076	174,095
Less current installments	75	74
Long-term debt, net of current installments	$ 190,001	$ 174,021

* Interest rate fluctuates based on the LIBOR rate plus an applicable margin set on the date of each advance. The margin above LIBOR is set every three months. Indebtedness under the credit facility bears interest at either LIBOR plus an applicable margin or the base prime rate plus an applicable margin. The applicable margin for revolving loans that are LIBOR loans ranges from 1.50% to 3.00% and the applicable margin for revolving loans that are base prime rate loans ranges from 0.50% to 2.00%. The applicable margin for term loans that are LIBOR loans ranges from 2.00% to 3.00% and the applicable margin for term loans that are base prime rate loans ranges from 1.00% to 2.00%. The applicable margin for existing borrowings is 2.50%. Effective April 1, 2007, the applicable margin for existing borrowings decreased to 2.00%. We incur a commitment fee on the unused portions of the credit facility.

** Effective December 13, 2006, the Partnership entered into a cash flow hedge that swaps $40,000 of floating rate to fixed rate. The fixed rate cost is 4.82% plus the Partnership s applicable LIBOR borrowing spread. The cash flow hedge matures in December 2009.

*** The $130,000 term loan has $105,000 hedged. Effective April 13, 2006, the Partnership entered into a cash flow hedge that swaps $75,000 of floating rate to fixed rate. The fixed rate cost is 5.25% plus the Partnership s applicable

LIBOR borrowing spread. The cash flow hedge matures in November 2010. Effective March 28, 2007, the Partnership entered into an additional interest rate swap that swaps $30,000 of floating rate to fixed rate. The fixed rate cost is 4.765% plus the Partnership s applicable LIBOR borrowing spread. This cash flow hedge matures in March 2010.

On August 18, 2006, the Partnership purchased certain terminalling assets and assumed associated long term debt of $113 with a fixed rate cost of 7.25%.

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On November 10, 2005, the Partnership entered into a new $225,000 multi-bank credit facility comprised of a $130,000 term loan facility and a $95,000 revolving credit facility, which includes a $20,000 letter of credit sub-limit. This credit facility also includes procedures for additional financial institutions to become revolving lenders, or for any existing revolving lender to increase its revolving commitment, subject to a maximum of $100,000 for all such increases in revolving commitments of new or existing revolving lenders. Effective June 30, 2006, we increased our revolving credit facility $25,000 resulting in a committed $120,000 revolving credit facility. The revolving credit facility is used for ongoing working capital needs and general partnership purposes, and to finance permitted investments, acquisitions and capital expenditures. Under the amended and restated credit facility, as of March 31, 2007, we had $60,000 outstanding under the revolving credit facility and $130,000 outstanding under the term loan facility. As of March 31, 2007, we had $59,900 available under our revolving credit facility.

On July 14, 2005, the Partnership issued a $120 irrevocable letter of credit to the Texas Commission on Environmental Quality to provide financial assurance for its used oil handling program.

The Partnership s obligations under the credit facility are secured by substantially all of the Partnership s assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in its operating subsidiaries. The Partnership may prepay all amounts outstanding under this facility at any time without penalty.

In addition, the credit facility contains various covenants, which, among other things, limit the Partnership s ability to: (i) incur indebtedness; (ii) grant certain liens; (iii) merge or consolidate unless it is the survivor; (iv) sell all or substantially all of its assets; (v) make certain acquisitions; (vi) make certain investments; (vii) make certain capital expenditures; (viii) make distributions other than from ava