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MARTIN MIDSTREAM PARTNERS LP

Form 10-Q

October 25, 2017

false--12-31Q320170001176334Accelerated FilerMARTIN MIDSTREAM PARTNERS

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2016-01-01 2016-09-30 0001176334 us-gaap:GeneralPartnerMember 2016-01-01 2016-09-30 0001176334
us-gaap:GeneralPartnerMember 2016-12-31 0001176334 us-gaap:LimitedPartnerMember 2017-09-30 0001176334
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us-gaap:CommodityContractMember us-gaap:NondesignatedMember 2016-12-31 0001176334
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mmlp:LubricantsPackagingBusinessforDefenseandIndemnityMember 2015-12-31 2015-12-31 0001176334
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2017-10-19 2017-10-19 utreg:bbl mmlp:segment xbrli:pure iso4217:USD xbrli:shares utreg:mi iso4217:USD
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number

000-50056

MARTIN MIDSTREAM PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

05-0527861

(IRS Employer Identification No.)

4200 Stone Road

Kilgore, Texas 75662

(Address of principal executive offices, zip code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The number of the registrant's Common Units outstanding at October 25, 2017, was 38,446,612.

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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)**

	September 30, 2017	December 31, 2016
	(Unaudited)	(Audited)
Assets		
Cash	\$ 15	\$ 15
Accounts and other receivables, less allowance for doubtful accounts of \$319 and \$372, respectively	64,127	80,508
Product exchange receivables	34	207
Inventories	130,618	82,631
Due from affiliates	13,484	11,567
Fair value of derivatives	133	—
Other current assets	3,703	3,296
Assets held for sale	13,764	15,779
Total current assets	225,878	194,003
Property, plant and equipment, at cost	1,248,093	1,224,277
Accumulated depreciation	(408,426)	(378,593)
Property, plant and equipment, net	839,667	845,684
Goodwill	17,296	17,296
Investment in WTLPG	127,998	129,506
Note receivable - affiliate	—	15,000
Other assets, net	37,211	44,874
Total assets	\$ 1,248,050	\$ 1,246,363
Liabilities and Partners' Capital		
Trade and other accounts payable	\$ 72,019	\$ 70,249
Product exchange payables	9,270	7,360
Due to affiliates	3,305	8,474
Income taxes payable	450	870
Fair value of derivatives	—	3,904
Other accrued liabilities	25,710	26,717
Total current liabilities	110,754	117,574
Long-term debt, net	829,991	808,107
Other long-term obligations	8,425	8,676
Total liabilities	949,170	934,357
Commitments and contingencies (Note 17)		
Partners' capital	298,880	312,006
Total partners' capital	298,880	312,006
Total liabilities and partners' capital	\$ 1,248,050	\$ 1,246,363

See accompanying notes to consolidated and condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues:				
Terminalling and storage *	\$25,752	\$30,770	\$75,105	\$93,565
Marine transportation *	11,407	13,846	36,661	44,531
Natural gas services*	14,253	14,618	43,756	46,118
Sulfur services	2,850	2,700	8,550	8,100
Product sales: *				
Natural gas services	83,831	57,378	284,154	207,368
Sulfur services	24,174	26,396	95,728	105,459
Terminalling and storage	30,861	28,829	96,421	85,349
	138,866	112,603	476,303	398,176
Total revenues	193,128	174,537	640,375	590,490
Costs and expenses:				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services *	77,368	50,658	255,745	184,781
Sulfur services *	19,716	21,510	65,406	73,734
Terminalling and storage *	25,852	23,540	80,312	70,306
	122,936	95,708	401,463	328,821
Expenses:				
Operating expenses *	45,072	39,488	114,564	121,542
Selling, general and administrative *	9,131	8,049	27,961	24,364
Loss on impairment of goodwill	—	—	—	4,145
Depreciation and amortization	20,286	22,129	65,948	66,266
Total costs and expenses	197,425	165,374	609,936	545,138
Other operating income (loss)	(187)	13	(327)	(1,582)
Operating income (loss)	(4,484)	9,176	30,112	43,770
Other income (expense):				
Equity in earnings of WTLPG	789	1,120	2,547	3,602
Interest expense, net	(12,538)	(11,779)	(34,677)	(34,046)
Other, net	55	730	605	866
Total other expense	(11,694)	(9,929)	(31,525)	(29,578)
Net income (loss) before taxes	(16,178)	(753)	(1,413)	14,192
Income tax expense	(108)	(180)	(301)	(422)
Net income (loss)	(16,286)	(933)	(1,714)	13,770
Less general partner's interest in net income (loss)	325	18	34	(8,062)
Less (income) loss allocable to unvested restricted units	38	3	—	(36)
Limited partners' interest in net income (loss)	\$(15,923)	\$(912)	\$(1,680)	\$5,672

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Net income (loss) per unit attributable to limited partners - basic	\$ (0.42)	\$ (0.03)	\$ (0.04)	\$ 0.16
Net income (loss) per unit attributable to limited partners - diluted	\$ (0.42)	\$ (0.03)	\$ (0.04)	\$ 0.16
Weighted average limited partner units - basic	38,357	35,346	38,016	35,358
Weighted average limited partner units - diluted	38,357	35,346	38,016	35,381

See accompanying notes to consolidated and condensed financial statements.

*Related Party Transactions Shown Below

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

(Unaudited)

(Dollars and units in thousands, except per unit amounts)

*Related Party Transactions Included Above

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Revenues:*				
Terminalling and storage	\$21,910	\$20,649	\$61,945	\$62,197
Marine transportation	4,098	4,861	12,610	17,308
Natural gas services	4	132	122	574
Product Sales	828	723	2,982	2,391
Costs and expenses:*				
Cost of products sold: (excluding depreciation and amortization)				
Natural gas services	3,033	2,946	14,836	10,829
Sulfur services	3,555	3,678	10,997	11,300
Terminalling and storage	4,817	3,766	14,003	11,232
Expenses:				
Operating expenses	15,858	17,810	48,686	53,255
Selling, general and administrative	6,495	5,748	20,563	18,091

See accompanying notes to consolidated and condensed financial statements.

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

	Partners' Capital		General Partner Amount	Total
	Common	Limited		
	Units	Amount		
Balances - January 1, 2016	35,456,612	\$380,845	\$13,034	\$393,879
Net income	—	5,708	8,062	13,770
Issuance of common units, net	—	(28)	—	(28)
Issuance of restricted units	13,800	—	—	—
Forfeiture of restricted units	(500)	—	—	—
Cash distributions	—	(86,410)	(13,680)	(100,090)
Reimbursement of excess purchase price over carrying value of acquired assets	—	3,000	—	3,000
Unit-based compensation	—	712	—	712
Purchase of treasury units	(15,200)	(330)	—	(330)
Balances - September 30, 2016	35,454,712	\$303,497	\$7,416	\$310,913
Balances - January 1, 2017	35,452,062	\$304,594	\$7,412	\$312,006
Net loss	—	(1,680)	(34)	(1,714)
Issuance of common units, net of issuance related costs	2,990,000	51,061	—	51,061
Issuance of restricted units	12,000	—	—	—
Forfeiture of restricted units	(5,750)	—	—	—
General partner contribution	—	—	1,098	1,098
Cash distributions	—	(56,177)	(1,146)	(57,323)
Unit-based compensation	—	518	—	518
Excess purchase price over carrying value of acquired assets	—	(7,887)	—	(7,887)
Reimbursement of excess purchase price over carrying value of acquired assets	—	1,125	—	1,125
Purchase of treasury units	(200)	(4)	—	(4)
Balances - September 30, 2017	38,448,112	\$291,550	\$7,330	\$298,880

See accompanying notes to consolidated and condensed financial statements.

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

	Nine Months Ended September 30, 2017 2016	
Cash flows from operating activities:		
Net income (loss)	\$(1,714)	\$13,770
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	65,948	66,266
Amortization of deferred debt issuance costs	2,170	2,965
Amortization of premium on notes payable	(230)	(230)
Loss on sale of property, plant and equipment	327	1,582
Loss on impairment of goodwill	—	4,145
Equity in earnings of WTLPG	(2,547)	(3,602)
Derivative (income) loss	2,392	(1,867)
Net cash (paid) received for commodity derivatives	(6,429)	1,666
Net cash received for interest rate derivatives	—	160
Net premiums received on derivatives that settled during the year on interest rate swaption contracts	—	630
Unit-based compensation	518	712
Cash distributions from WTLPG	4,200	6,100
Change in current assets and liabilities, excluding effects of acquisitions and dispositions:		
Accounts and other receivables	16,381	28,028
Product exchange receivables	173	891
Inventories	(48,022)	(31,606)
Due from affiliates	(1,917)	1,932
Other current assets	(411)	(4,693)
Trade and other accounts payable	2,222	(15,782)
Product exchange payables	1,910	(2,544)
Due to affiliates	(5,169)	(1,859)
Income taxes payable	(420)	(435)
Other accrued liabilities	(3,766)	(3,729)
Change in other non-current assets and liabilities	1,941	(765)
Net cash provided by operating activities	27,557	61,735
Cash flows from investing activities:		
Payments for property, plant and equipment	(30,014)	(31,884)
Acquisitions	(19,533)	—
Acquisition of intangible assets	—	(2,150)
Payments for plant turnaround costs	(1,583)	(1,614)
Proceeds from sale of property, plant and equipment	1,604	2,174
Proceeds from involuntary conversion of property, plant and equipment	—	23,400
Proceeds from repayment of Note receivable - affiliate	15,000	—
Contributions to WTLPG	(145)	—
Other	(900)	—
Net cash used in investing activities	(35,571)	(10,074)

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Cash flows from financing activities:		
Payments of long-term debt	(242,000)	(219,700)
Proceeds from long-term debt	262,000	270,700
Proceeds from issuance of common units, net of issuance related costs	51,061	(28)
General partner contribution	1,098	—
Purchase of treasury units	(4)	(330)
Payment of debt issuance costs	(56)	(5,234)
Excess purchase price over carrying value of acquired assets	(7,887)	—
Reimbursement of excess purchase price over carrying value of acquired assets	1,125	3,000
Cash distributions paid	(57,323)	(100,090)
Net cash provided by (used in) financing activities	8,014	(51,682)
Net increase (decrease) in cash	—	(21)
Cash at beginning of period	15	31
Cash at end of period	\$ 15	\$ 10
Non-cash additions to property, plant and equipment	\$ 1,367	\$ 1,068

See accompanying notes to consolidated and condensed financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2017
(Unaudited)

(1) General

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

The Partnership's unaudited consolidated and condensed financial statements have been prepared in accordance with the requirements of Form 10-Q and U.S. Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial reporting. Accordingly, these financial statements have been condensed and do not include all of the information and footnotes required by U.S. GAAP for annual audited financial statements of the type contained in the Partnership's annual reports on Form 10-K. In the opinion of the management of the Partnership's general partner, all adjustments and elimination of significant intercompany balances necessary for a fair presentation of the Partnership's financial position, results of operations, and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature. Results for such interim periods are not necessarily indicative of the results of operations for the full year. These financial statements should be read in conjunction with the Partnership's audited consolidated financial statements and notes thereto included in the Partnership's annual report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (the "SEC") on February 15, 2017, as amended by Amendment No. 1 on Form 10-K/A for the year ended December 31, 2016 filed on March 31, 2017.

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 and condensed financial statements in conformity with U.S. GAAP. Actual results could differ from those estimates.

(2) New Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-04 "*Intangibles-Goodwill and other: Simplifying the test for goodwill impairment.*" This ASU removes the second step of the two-step test currently required under the current guidance. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This ASU is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Partnership elected to early adopt this amended guidance effective January 1, 2017. The Partnership expects that adoption of this standard will change its approach for testing goodwill for impairment if a triggering event is identified; however, this standard requires prospective application and therefore will only impact periods subsequent to adoption.

In August 2016, the Financial Accounting Standards Board FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted. The Partnership does not anticipate that ASU 2016-15 will have a material effect on its consolidated and condensed financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption of this standard is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Partnership is evaluating the effect that ASU 2016-02 will have on its consolidated and condensed financial statements and related disclosures.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Partnership on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Partnership is currently determining the overall impacts that ASU 2014-09 will have on its contract portfolio and consolidated financial statements, and is in the process of evaluating its new controls and processes designed to comply with ASU 2014-09 throughout 2017 to permit adoption by January 1, 2018. The Partnership's approach includes performing a detailed review of key contracts representative of its different businesses and comparing historical accounting policies and practices to the new standard. The Partnership expects to complete implementation of the new revenue recognition standard by the end of 2017. Based on the analysis completed to date, the Partnership does not believe the standard will significantly impact the amount or timing of revenues recognized under the vast majority of the Partnership's revenue contracts. The Partnership currently intends on adopting the new standard utilizing the cumulative effect method which will result in the cumulative effect of the adoption being recorded as of January 1, 2018.

(3) Acquisitions

Acquisition of Terminalling Assets. On February 22, 2017, the Partnership acquired 100% of the membership interests of MEH South Texas Terminals LLC ("MEH"), a subsidiary of Martin Resource Management, for a purchase price of \$27,420 (the "Hondo Acquisition"), which was funded with borrowings under the Partnership's revolving credit facility. At the date of acquisition, MEH was in the process of constructing an asphalt terminal facility in Hondo, Texas (the "Hondo Terminal"), which will serve the asphalt market in San Antonio, Texas and surrounding areas. The Partnership will spend \$8,580 to finalize construction of the Hondo Terminal, which has been substantially completed as of September 30, 2017. Martin Resource Management is obligated to pay the Partnership the amount required to complete the construction of the Hondo Terminal in excess of \$8,580, if any. This acquisition is considered a transfer of net assets between entities under common control. The acquisition of these assets was recorded at the historical carrying value of the assets at the acquisition date. The excess of the purchase price over the carrying value of the assets of \$7,887 was recorded as an adjustment to "Partners' capital."

Purchase price	\$27,420
Historical carrying value of assets allocated to "Property, plant and equipment"	19,533
Excess purchase price over carrying value of acquired assets	\$7,887

As no individual line item of the historical financial statements of the acquired assets was in excess of 3% of the Partnership's relative consolidated financial statement captions, the Partnership elected not to retrospectively recast the historical financial information to include these assets.

(4) Divestitures and discontinued operations

Long-Lived Assets Held for Sale

In the fourth quarter of 2016, the Partnership identified certain assets that were no longer deemed core to the operations of the Partnership in the Smackover refinery and Martin Lubricants divisions of the Terminalling and

Storage segment as well as the inland and offshore divisions of the Marine Transportation segment. At September 30, 2017 and December 31, 2016, the assets met the criteria to be classified as held for sale in accordance with ASC 360-10 and are presented at the lower of the assets' carrying amount or fair value less cost to sell by segment in current assets as follows:

	September 30, 2017	December 31, 2016
Terminalling and storage	\$ 10,537	\$ 10,852
Marine transportation	3,227	4,927
Assets held for sale	\$ 13,764	\$ 15,779

The non-core assets discussed above did not qualify for discontinued operations presentation under the guidance of ASC 205-20.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2017
(Unaudited)

Divestitures

Divestiture of Terminalling Assets. On December 21, 2016, the Partnership sold its 900,000 barrel crude oil storage terminal, refined product barge terminal, certain pipelines and related easements as well as dockage and trans-loading assets located in Corpus Christi, Texas (collectively the "CCCT Assets") to NuStar Logistics, L.P. ("NuStar") for gross consideration of \$107,000 plus the reimbursement of certain capital expenditures and prepaid items of \$2,057. The Partnership received net proceeds of approximately \$93,347 after transaction fees and expenses as well as the application of certain net cash payments previously received by the Partnership in conjunction with its mandated relocation of certain dockage assets to the purchase price in the amount of \$13,400. Proceeds from the sale were used to reduce outstanding borrowings under the Partnership's revolving credit facility. The Partnership recorded a gain from the divestiture of \$37,345, which was included in "Other operating income, net" on the Partnership's Consolidated Statements of Operations for the year ended December 31, 2016. Net income attributable to the CCCT Assets included in the Partnership's Consolidated Statements of Operations was \$779 and \$4,294 for the three and nine months ended September 30, 2016, respectively.

The divestiture of the CCCT Assets did not qualify for discontinued operations presentation under the guidance of ASC 205-20.

(5) Inventories

Components of inventories at September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017	December 31, 2016
Natural gas liquids	\$ 85,574	\$ 33,656
Sulfur	7,796	8,521
Sulfur based products	13,668	19,107
Lubricants	20,879	18,276
Other	2,701	3,071
	\$ 130,618	\$ 82,631

(6) Investment in West Texas LPG Pipeline L.P.

The Partnership owns a 19.8% limited partnership and 0.2% general partnership interest in West Texas LPG Pipeline L.P. ("WTLPG"). A wholly-owned subsidiary of ONEOK, Inc. is the operator of the assets. WTLPG owns an approximate 2,300 mile common-carrier pipeline system that primarily transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. The Partnership recognizes its 20% interest in WTLPG as "Investment in WTLPG" on its Consolidated and Condensed Balance Sheets. The Partnership accounts for its ownership interest in WTLPG under the equity method of accounting.

MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2017
(Unaudited)

Selected financial information for WTLPG is as follows:

As of September 30,			Three Months Ended September 30,	Nine Months Ended September 30,			
Total Assets	Long-Term Debt	Members' Equity	Revenues	Net Income	Revenues	Net Income	
2017							
WTLPG	\$807,176	\$	—\$784,440	\$22,009	\$3,945	\$63,148	\$12,734
As of December 31,							
2016							
WTLPG	\$812,464	\$	—\$790,406	\$21,849	\$5,515	\$66,870	\$18,240

As of September 30, 2017 and December 31, 2016, the Partnership's interest in cash of WTLPG was \$620 and \$631, respectively.

(7) Derivative Instruments and Hedging Activities

The Partnership's revenues and cost of products sold are materially impacted by changes in NGL prices. Additionally, the Partnership's results of operations are materially impacted by changes in interest rates. In an effort to manage its exposure to these risks, the Partnership periodically enters into various derivative instruments, including commodity and interest rate hedges. 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. All of the Partnership's derivatives are non-hedge derivatives and therefore all changes in fair values are recognized as gains and losses in the earnings of the periods in which they occur.

(a) Commodity Derivative Instruments

The Partnership from time to time has used derivatives to manage the risk of commodity price fluctuation. Commodity risk is the adverse effect on the value of a liability or future purchase that results from a change in commodity price. The Partnership has established a hedging policy and monitors and manages the commodity market risk associated with potential commodity risk exposure. In addition, the Partnership has focused on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction. The Partnership has entered into hedging transactions as of September 30, 2017 to protect a portion of its commodity price risk exposure. These hedging arrangements are in the form of swaps for NGLs. The Partnership has instruments totaling a gross notional quantity of 128,000 barrels settling during the period from October 1, 2017 through December 29, 2017. At December 31, 2016, the Partnership had instruments totaling a gross notional quantity of 2,589 barrels settling during the period from January 1, 2017 through June 30, 2017. These instruments settle against the applicable pricing source for each grade and location. Martin Energy Trading LLC ("MET"), an affiliate of Martin Resource Management, serves as the counterparty for all positions outstanding at September 30, 2017.

(b) Interest Rate Derivative Instruments

The Partnership is exposed to market risks associated with interest rates. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Partnership enters into interest rate swaps to manage interest rate risk associated with the Partnership's variable rate credit facility and its fixed rate senior unsecured notes. At September 30, 2017, the Partnership did not have any outstanding interest rate derivative instruments.

During the nine months ended September 30, 2016, the Partnership entered into contracts which provided the counterparty the option to enter into swap contracts to hedge the Partnership's exposure to changes in the fair value of its senior unsecured notes ("interest rate swaptions") through September 30, 2016. In connection with the interest rate swaption

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MARTIN MIDSTREAM PARTNERS L.P.
NOTES TO CONSOLIDATED AND CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except where otherwise indicated)
September 30, 2017
(Unaudited)

contracts, the Partnership received premiums of \$630, which represented their fair value on the date the transactions were initiated and were initially recorded as derivative liabilities on the Partnership's Consolidated and Condensed Balance Sheets, during the nine months ended September 30, 2016. Each of the interest rate swaptions were fully amortized as of September 30, 2016. Interest rate swaption contract premiums received are amortized over the period from initiation of the contract through their termination date. For the nine months ended September 30, 2016, the Partnership recognized \$630 of premiums in "Interest expense, net" on the Partnership's Consolidated and Condensed Statements of Operations related to the interest rate swaption contracts.

On January 7, 2016, the Partnership terminated a fixed-to-variable interest rate swap position with a notional principal amount of \$50,000, resulting in a benefit of \$366, which was recorded in "Interest expense, net" on the Partnership's Consolidated and Condensed Statement of Operations.

For information regarding gains and losses on interest rate derivative instruments, see "Tabular Presentation of Gains and Losses on Derivative Instruments" below.

(c) Tabular Presentation of Gains and Losses on Derivative Instruments

The following table summarizes the fair value and classification of the Partnership's derivative instruments in its Consolidated and Condensed Balance Sheets:

	Fair Values of Derivative Instruments in the Consolidated Balance Sheets					
	Derivative Assets		Derivative Liabilities			
	Balance Sheet Location	Fair Values September 30, 2017	December 31, 2016	Balance Sheet Location	Fair Values September 30, 2017	December 31, 2016
Derivatives not designated as hedging instruments:	Current:					
Commodity contracts	Fair value of derivatives	\$ 133	\$ —	Fair value of derivatives	\$ —	\$ 3,904
Total derivatives not designated as hedging instruments		\$ 133	\$ —	—	\$ —	\$ 3,904

Effect of Derivative Instruments on the Consolidated and Condensed Statements of Operations
For the Three Months Ended September 30, 2017 and 2016

Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
	2017	2016

Derivatives not designated as hedging instruments:

Commodity contracts	Cost of products sold	\$ —\$ 742
Total effect of derivatives not designated as hedging instruments		\$ —\$ 742

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Effect of Derivative Instruments on the Consolidated and Condensed Statements of Operations
For the Nine Months Ended September 30, 2017 and 2016

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	
		2017	2016
Derivatives not designated as hedging instruments:			
Interest rate swaption contracts	Interest expense	\$—	\$630
Interest rate contracts	Interest expense	—	366
Commodity contracts	Cost of products sold	(2,392)	871
Total effect of derivatives not designated as hedging instruments		\$(2,392)	\$1,867

(8) Fair Value Measurements

The Partnership uses a valuation framework based upon inputs that market participants use in pricing certain assets and liabilities. These inputs are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources. Unobservable inputs represent the Partnership's own market assumptions. Unobservable inputs are used only if observable inputs are unavailable or not reasonably available without undue cost and effort. The two types of inputs are further prioritized into the following hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that reflect the entity's own assumptions and are not corroborated by market data.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 2	
	September 30, 2017	December 31, 2016
Commodity derivative contracts, net	\$133	\$(3,904)

The Partnership is required to disclose estimated fair values for its financial instruments. Fair value estimates are set forth below for these financial instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Accounts and other receivables, trade and other accounts payable, accrued interest payable, other accrued liabilities, income taxes payable and due from/to affiliates: The carrying amounts approximate fair value due to the short maturity and highly liquid nature of these instruments, and as such these have been excluded from the table below. There is negligible credit risk associated with these instruments.

Note receivable and long-term debt: The carrying amount of the revolving credit facility approximates fair value due to the debt having a variable interest rate and is in Level 2. The Partnership has not had any indicators which represent a change in the market spread associated with its variable interest rate debt. The estimated fair value of the senior unsecured notes is considered Level 1, as the fair value is based on quoted market prices in active markets. The estimated fair value of the note receivable - affiliates was determined by calculating the net present value of the payments over the life of the note. The note is considered Level 3 due to the lack of observable inputs for similar transactions between related parties.

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	September 30, 2017	December 31, 2016	Carrying Value	Fair Value
Note receivable - affiliates	\$ —	\$ 15,000	\$ 15,000	\$ 15,797
2021 Senior unsecured notes	372,523	384,600	372,239	377,882

(9) Supplemental Balance Sheet Information

Components of "Other assets, net" were as follows:

	September 30, 2017	December 31, 2016
Customer contracts and relationships, net	\$ 28,067	\$ 36,528
Other intangible assets	1,881	2,280
Other	7,263	6,066
	\$ 37,211	\$ 44,874

Accumulated amortization of intangible assets was \$59,594 and \$48,876 at September 30, 2017 and December 31, 2016, respectively.

Components of "Other accrued liabilities" were as follows:

	September 30, 2017	December 31, 2016
Accrued interest	\$ 3,802	\$ 10,629
Asset retirement obligations	11,378	7,953
Property and other taxes payable	7,836	6,443
Accrued payroll	2,679	1,672
Other	15	20
	\$ 25,710	\$ 26,717

The schedule below summarizes the changes in our asset retirement obligations:

	September 30, 2017
Beginning asset retirement obligations	\$ 16,418
Revisions to existing liabilities ¹	5,801
Accretion	277
Liabilities settled	(2,695)
Ending asset retirement obligations	19,801

Current portion of asset retirement obligations (11,378)
Long-term portion of asset retirement obligations² \$ 8,423

¹Several factors are considered in the annual review process, including inflation rates, current estimates for removal cost, discount rates, and the estimated remaining useful life of the assets. The 2017 revisions reflect changes in removal cost estimates and the estimated remaining useful life of assets.

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²The non-current portion of asset retirement obligations is included in "Other long-term obligations" on the Partnership's Consolidated and Condensed Balance Sheets.

(10) Long-Term Debt

At September 30, 2017 and December 31, 2016, long-term debt consisted of the following:

	September 30, 2017	December 31, 2016
\$664,444 Revolving credit facility at variable interest rate (4.24% ¹ weighted average at September 30, 2017), due March 2020 secured by substantially all of the Partnership's assets, including, without limitation, inventory, accounts receivable, vessels, equipment, fixed assets and the interests in the Partnership's operating subsidiaries and equity method investees, net of unamortized debt issuance costs of \$5,531 and \$7,132, respectively ²	\$ 457,469	\$ 435,868
\$400,000 Senior notes, 7.25% interest, net of unamortized debt issuance costs of \$2,310 and \$2,823, respectively, including unamortized premium of \$1,032 and \$1,262, respectively, issued \$250,000 February 2013 and \$150,000 April 2014, \$26,200 repurchased during 2015, due February 2021, unsecured ^{2,3}	372,522	372,239
Total long-term debt, net	\$ 829,991	\$ 808,107

¹ Interest rate fluctuates based on the LIBOR rate plus an applicable margin set on the date of each advance. The margin above LIBOR is set every three months. Indebtedness under the credit facility bears interest at LIBOR plus an applicable margin or the base prime rate plus an applicable margin. All amounts outstanding at September 30, 2017 and December 31, 2016 were at LIBOR plus an applicable margin. The applicable margin for revolving loans that are LIBOR loans ranges from 2.00% to 3.00% and the applicable margin for revolving loans that are base prime rate loans ranges from 1.00% to 2.00%. The applicable margin for existing LIBOR borrowings at September 30, 2017 is 3.00%. The credit facility contains various covenants which limit the Partnership's ability to make certain investments and acquisitions; enter into certain agreements; incur indebtedness; sell assets; and make certain amendments to the Partnership's omnibus agreement with Martin Resource Management (the "Omnibus Agreement"). The Partnership is permitted to make quarterly distributions so long as no event of default exists.

² The Partnership is in compliance with all debt covenants as of September 30, 2017 and December 31, 2016, respectively.

³ The 2021 indenture restricts the Partnership's ability to sell assets; pay distributions or repurchase units or redeem or repurchase subordinated debt; make investments; incur or guarantee additional indebtedness or issue preferred units; and consolidate, merge or transfer all or substantially all of its assets. Many of these covenants will terminate if the notes achieve an investment grade rating from each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services and no default (as defined in the indenture) has occurred.

The Partnership paid cash interest, net of proceeds received from interest rate swaptions and capitalized interest, in the amount of \$18,578 and \$18,644 for the three months ended September 30, 2017 and 2016, respectively. The

Partnership paid cash interest, net of proceeds received from interest rate swaptions and capitalized interest, in the amount of \$41,087 and \$40,760 for the nine months ended September 30, 2017 and 2016, respectively. Capitalized interest was \$130 and \$229 for the three months ended September 30, 2017 and 2016, respectively. Capitalized interest was \$575 and \$911 for the nine months ended September 30, 2017 and 2016, respectively.

(11) Partners' Capital

As of September 30, 2017, Partners' capital consisted of 38,448,112 common limited partner units, representing a 98% partnership interest, and a 2% general partner interest. Martin Resource Management, through subsidiaries, owns 6,264,532 of the Partnership's common limited partner units representing approximately 16.3% of the Partnership's outstanding common limited partner units. Martin Midstream GP LLC ("MMGP"), the Partnership's general partner, owns the 2% general partnership interest. Martin Resource Management controls the Partnership's general partner, by virtue of its 51% voting interest in MMGP Holdings, LLC ("Holdings"), the sole member of the Partnership's general partner.

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The partnership agreement of the Partnership (the "Partnership Agreement") contains specific provisions for the allocation of net income and losses to each of the partners for purposes of maintaining their respective partner capital accounts.

Issuance of Common Units

On February 22, 2017, the Partnership completed a public offering of 2,990,000 common units at a price of \$18.00 per common unit, before the payment of underwriters' discounts, commissions and offering expenses (per unit value is in dollars, not thousands). Total proceeds from the sale of the 2,990,000 common units, net of underwriters' discounts, commissions and offering expenses, were \$51,061. Additionally, the Partnership's general partner contributed \$1,098 in cash to the Partnership in conjunction with the issuance in order to maintain its 2.0% general partner interest in the Partnership. All of the net proceeds were used to pay down outstanding amounts under the Partnership's revolving credit facility.

Incentive Distribution Rights

MMGP holds a 2% general partner interest and certain incentive distribution rights ("IDRs") in the Partnership. IDRs are a separate class of non-voting limited partner interest that may be transferred or sold by the general partner under the terms of the Partnership Agreement, and represent the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution and any cumulative arrearages on common units once certain target distribution levels have been achieved. The Partnership is required to distribute all of its available cash from operating surplus, as defined in the Partnership Agreement. The general partner was allocated no incentive distributions during the three months ended September 30, 2017 and 2016, respectively. The general partner was allocated \$0 and \$7,786 in incentive distributions during the nine months ended September 30, 2017 and 2016, respectively.

The target distribution levels entitle the general partner to receive 2% of quarterly cash distributions from the minimum of \$0.50 per unit up to \$0.55 per unit, 15% of quarterly cash distributions in excess of \$0.55 per unit until all unitholders have received \$0.625 per unit, 25% of quarterly cash distributions in excess of \$0.625 per unit until all unitholders have received \$0.75 per unit and 50% of quarterly cash distributions in excess of \$0.75 per unit.

Distributions of Available Cash

The Partnership distributes all of its available cash (as defined in the Partnership Agreement) within 45 days after the end of each quarter to unitholders of record and to the general partner. Available cash is generally defined as all cash and cash equivalents of the Partnership on hand at the end of each quarter less the amount of cash reserves its general partner determines in its reasonable discretion is necessary or appropriate to: (i) provide for the proper conduct of the Partnership's business; (ii) comply with applicable law, any debt instruments or other agreements; or (iii) provide funds for distributions to unitholders and the general partner for any one or more of the next four quarters, plus all cash on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter.

Net Income per Unit

The Partnership follows the provisions of the FASB ASC 260-10 related to earnings per share, which addresses the application of the two-class method in determining income per unit for master limited partnerships having multiple classes of securities that may participate in partnership distributions accounted for as equity distributions.

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

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For purposes of computing diluted net income per unit, the Partnership uses the more dilutive of the two-class and if-converted methods. Under the if-converted method, the weighted-average number of subordinated units outstanding for the period is added to the weighted-average number of common units outstanding for purposes of computing basic net income per unit and the resulting amount is compared to the diluted net income per unit computed using the two-class method. The following is a reconciliation of net income allocated to the general partner and limited partners for purposes of calculating net income attributable to limited partners per unit:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$ (16,286)	\$ (933)	\$ (1,714)	\$ 13,770
Less general partner's interest in net income (loss):				
Distributions payable on behalf of IDRs	—	—	—	7,786
Distributions payable on behalf of general partner interest	392	361	1,177	1,696
General partner interest in undistributed loss	(717)	(379)	(1,211)	(1,420)
Less income (loss) allocable to unvested restricted units	(38)	(3)	—	36
Limited partners' interest in net income (loss)	\$ (15,923)	\$ (912)	\$ (1,680)	\$ 5,672

The following are the unit amounts used to compute the basic and diluted earnings per limited partner unit for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic weighted average limited partner units outstanding	38,357,171	35,346,412	38,015,704	35,358,217
Dilutive effect of restricted units issued	—	—	—	22,850
Total weighted average limited partner diluted units outstanding	38,357,171	35,346,412	38,015,704	35,381,067

All outstanding units were included in the computation of diluted earnings per unit and weighted based on the number of days such units were outstanding during the periods presented. All common unit equivalents were antidilutive for the three and nine months ended September 30, 2017 and the three months ended September 30, 2016 because the limited partners were allocated a net loss in this period.

(12) Related Party Transactions

As of September 30, 2017, Martin Resource Management owns 6,264,532 of the Partnership's common units representing approximately 16.3% of the Partnership's outstanding limited partner units. Martin Resource Management controls the Partnership's general partner by virtue of its 51% voting interest in Holdings, the sole member of the Partnership's general partner. The Partnership's general partner, MMGP, owns a 2% general partner interest in the Partnership and the Partnership's IDRs. The Partnership's general partner's ability, as general partner, to manage and operate the Partnership, and Martin Resource Management's ownership as of September 30, 2017, of approximately 16.3% of the Partnership's outstanding limited partner units, effectively gives Martin Resource

Management the ability to veto some of the Partnership's actions and to control the Partnership's management.

The following is a description of the Partnership's material related party agreements and transactions:

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Omnibus Agreement

Omnibus Agreement. The Partnership and its general partner are parties to the Omnibus Agreement dated November 1, 2002, with Martin Resource Management that governs, among other things, potential competition and indemnification obligations among the parties to the agreement, related party transactions, the provision of general administration and support services by Martin Resource Management and the Partnership's use of certain Martin Resource Management trade names and trademarks. The Omnibus Agreement was amended on November 25, 2009, to include processing crude oil into finished products including naphthenic lubricants, distillates, asphalt and other intermediate cuts. The Omnibus Agreement was amended further on October 1, 2012, to permit the Partnership to provide certain lubricant packaging products and services to Martin Resource Management.

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

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

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

• distributing NGLs; and

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

This restriction does not apply to:

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

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

 providing land transportation of various liquids;

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

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

 operating a crude oil gathering business in Stephens, Arkansas;

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

 providing crude oil marketing and transportation from the well head to the end market;

operating an environmental consulting company;

operating an engineering services company;

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

operating a crude oil, natural gas, natural gas liquids, and biofuels optimization business; and

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

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

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any business that Martin Resource Management acquires or constructs that has a fair market value of \$5,000 or more if the Partnership has been offered the opportunity to purchase the business for fair market value and the Partnership declines to do so with the concurrence of the conflicts committee of the board of directors of the general partner of the Partnership (the "Conflicts Committee"); and

any business that Martin Resource Management acquires or constructs where a portion of such business includes a restricted business and the fair market value of the restricted business is \$5,000 or more and represents less than 20% of the aggregate value of the entire business to be acquired or constructed; provided that, following completion of the acquisition or construction, the Partnership will be provided the opportunity to purchase the restricted business.

Services. Under the Omnibus Agreement, Martin Resource Management provides the Partnership with corporate staff, support services, and administrative services necessary to operate the Partnership's business. The Omnibus Agreement requires the Partnership to reimburse Martin Resource Management for all direct expenses it incurs or payments it makes on the Partnership's behalf or in connection with the operation of the Partnership's business. There is no monetary limitation on the amount the Partnership is required to reimburse Martin Resource Management for direct expenses. In addition to the direct expenses, under the Omnibus Agreement, the Partnership is required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses.

Effective January 1, 2017, through December 31, 2017, the Conflicts Committee approved an annual reimbursement amount for indirect expenses of \$16,416. The Partnership reimbursed Martin Resource Management for \$4,104 and \$3,258 of indirect expenses for the three months ended September 30, 2017 and 2016, respectively. The Partnership reimbursed Martin Resource Management for \$12,312 and \$9,775 of indirect expenses for the nine months ended September 30, 2017 and 2016, respectively. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually.

These indirect expenses are intended to cover the centralized corporate functions Martin Resource Management provides for the Partnership, such as accounting, treasury, clerical, engineering, legal, billing, information technology, administration of insurance, general office expenses and employee benefit plans and other general corporate overhead functions the Partnership shares with Martin Resource Management retained businesses. The provisions of the Omnibus Agreement regarding Martin Resource Management's services will terminate if Martin Resource Management ceases to control the general partner of the Partnership.

Related Party Transactions. The Omnibus Agreement prohibits the Partnership from entering into any material agreement with Martin Resource Management without the prior approval of the Conflicts Committee. For purposes of the Omnibus Agreement, the term "material agreements" means any agreement between the Partnership and Martin Resource Management that requires aggregate annual payments in excess of the then-applicable agreed upon reimbursable amount of indirect general and administrative expenses. Please read "Services" above.

License Provisions. Under the Omnibus Agreement, Martin Resource Management has granted the Partnership a nontransferable, nonexclusive, royalty-free right and license to use certain of its trade names and marks, as well as the trade names and marks used by some of its affiliates.

Amendment and Termination. The Omnibus Agreement may be amended by written agreement of the parties; provided, however, that it may not be amended without the approval of the Conflicts Committee if such amendment would adversely affect the unitholders. The Omnibus Agreement was first amended on November 25, 2009, to permit the Partnership to provide refining services to Martin Resource Management. The Omnibus Agreement was amended further on October 1, 2012, to permit the Partnership to provide certain lubricant packaging products and services to Martin Resource Management. Such amendments were approved by the Conflicts Committee. The Omnibus Agreement, other than the indemnification provisions and the provisions limiting the amount for which the Partnership will reimburse Martin Resource Management for general and administrative services performed on its behalf, will terminate if the Partnership is no longer an affiliate of Martin Resource Management.

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Motor Carrier Agreement

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

Term and Pricing. The agreement has an initial term that expired in December 2007 but automatically renews for consecutive one year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term. The Partnership has the right to terminate this agreement at any time by providing 90 days prior notice. These rates are subject to any adjustments which are mutually agreed upon or in accordance with a price index. Additionally, during the term of the agreement, shipping charges are also subject to fuel surcharges determined on a weekly basis in accordance with the U.S. Department of Energy's national diesel price list.

Indemnification. Martin Transport, Inc. has indemnified the Partnership against all claims arising out of the negligence or willful misconduct of Martin Transport, Inc. and its officers, employees, agents, representatives and subcontractors. The Partnership has indemnified Martin Transport, Inc. against all claims arising out of the negligence or willful misconduct of the Partnership and its officers, employees, agents, representatives and subcontractors. In the event a claim is the result of the joint negligence or misconduct of Martin Transport, Inc. and the Partnership, indemnification obligations will be shared in proportion to each party's allocable share of such joint negligence or misconduct.

Marine Agreements

Marine Transportation Agreement. The Partnership is a party to a marine transportation agreement effective January 1, 2006, as amended, under which the Partnership provides marine transportation services to Martin Resource Management on a spot-contract basis at applicable market rates. Effective each January 1, this agreement automatically renews for consecutive one year periods unless either party terminates the agreement by giving written notice to the other party at least 60 days prior to the expiration of the then applicable term. The fees the Partnership charges Martin Resource Management are based on applicable market rates.

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

Terminal Services Agreements

Diesel Fuel Terminal Services Agreement. Effective January 1, 2016, the Partnership entered into a second amended and restated terminalling services agreement under which the Partnership provides terminal services to Martin Resource Management for marine fuel distribution. At such time, the per gallon throughput fee the Partnership

charged under this agreement was increased when compared to the previous agreement and may be adjusted annually based on a price index. This agreement was further amended on January 1, 2017 and October 1, 2017 to modify its minimum throughput requirements and throughput fees. This agreement, as amended, continues until September 30, 2018 and thereafter on a month to month basis until terminated by either party by giving 60 days' written notice.

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

Other Agreements

Cross Tolling Agreement. The Partnership is a party to an amended and restated tolling agreement with Cross Oil Refining and Marketing, Inc. ("Cross") dated October 28, 2014, under which the Partnership processes crude oil into finished

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products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts for Cross. The tolling agreement expires November 25, 2031. Under this tolling agreement, Cross agreed to process a minimum of 6,500 barrels per day of crude oil at the facility at a fixed price per barrel. Any additional barrels are processed at a modified price per barrel. In addition, Cross agreed to pay a monthly reservation fee and a periodic fuel surcharge fee based on certain parameters specified in the tolling agreement. All of these fees (other than the fuel surcharge) are subject to escalation annually based upon the greater of 3% or the increase in the Consumer Price Index for a specified annual period. In addition, on the third, sixth and ninth anniversaries of the agreement, the parties can negotiate an upward or downward adjustment in the fees subject to their mutual agreement.

Sulfuric Acid Sales Agency Agreement. The Partnership is party to a third amended and restated sulfuric acid sales agency agreement dated August 2, 2017 but effective October 1, 2017, under which a successor in interest to the agreement from Martin Resource Management, Saconix LLC (“Saconix”), a limited liability company in which Martin Resource Management has a minority equity interest, purchases and markets the sulfuric acid produced by the Partnership’s sulfuric acid production plant at Plainview, Texas, that is not consumed by the Partnership’s internal operations. This agreement, as amended, will remain in place until September 30, 2020 and shall automatically renew year to year thereafter until either party provides 90 days’ written notice of termination prior to the expiration of the then existing term. Under this agreement, the Partnership sells all of its excess sulfuric acid to Saconix, who then markets and sells such acid to third-parties. The Partnership shares in the profit of such sales.

Other Miscellaneous Agreements. From time to time the Partnership enters into other miscellaneous agreements with Martin Resource Management for the provision of other services or the purchase of other goods.

The tables below summarize the related party transactions that are included in the related financial statement captions on the face of the Partnership’s Consolidated and Condensed Statements of Operations. The revenues, costs and expenses reflected in these tables are tabulations of the related party transactions that are recorded in the corresponding captions of the consolidated and condensed financial statements and do not reflect a statement of profits and losses for related party transactions.

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Revenues:				
Terminalling and storage	\$21,910	\$20,649	\$61,945	\$62,197
Marine transportation	4,098	4,861	12,610	17,308
Natural gas services	4	132	122	574
Product sales:				
Natural gas services	101	—	1,043	—
Sulfur services	522	502	1,540	1,551
Terminalling and storage	205	221	399	840
	828	723	2,982	2,391

\$26,840 \$26,365 \$77,659 \$82,470

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The impact of related party cost of products sold is reflected in the consolidated and condensed financial statements as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2017	2016	2017	2016
Cost of products sold:				
Natural gas services	\$3,033	\$2,946	\$14,836	\$10,829
Sulfur services	3,555	3,678	10,997	11,300
Terminalling and storage	4,817	3,766	14,003	11,232
	\$11,405	\$10,390	\$39,836	\$33,361

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2017	2016	2017	2016
Operating expenses:				
Marine transportation	\$5,794	\$6,959	\$17,857	\$21,606
Natural gas services	2,256	2,329	6,724	6,955
Sulfur services	1,391	1,510	4,371	4,315
Terminalling and storage	6,417	7,012	19,734	20,379
	\$15,858	\$17,810	\$48,686	\$53,255

The impact of related party selling, general and administrative expenses is reflected in the consolidated and condensed financial statements as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2017	2016	2017	2016
Selling, general and administrative:				
Marine transportation	\$11	\$9	\$26	\$22
Natural gas services	1,140	1,173	4,619	4,265
Sulfur services	648	678	1,905	2,089
Terminalling and storage	592	630	1,701	1,937
Indirect, including overhead allocation	4,104	3,258	12,312	9,778
	\$6,495	\$5,748	\$20,563	\$18,091

Other Related Party Transactions

The Partnership had a \$15,000 note receivable from an affiliate of Martin Resource Management which previously bore an annual interest rate of 15% and had a maturity date of August 31, 2026, the balance of which could be prepaid on or after September 1, 2016. On February 14, 2017, the Partnership notified Martin Resource Management that it would be requesting voluntary repayment of the long-term Note Receivable plus accrued interest. During second quarter of 2017, the Note Receivable was fully repaid. The note has historically been recorded in "Note receivable - affiliates" on the Partnership's Consolidated and Condensed Balance Sheets. Interest income for the three months ended September 30, 2017 and 2016 was \$0 and \$567, respectively, and is included in "Interest expense, net" in the Consolidated and Condensed Statements of Operations. Interest income for the nine months ended September 30, 2017 and 2016 was \$943 and \$1,689, respectively, and is included in "Interest expense, net" in the Consolidated and Condensed Statements of Operations.

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As discussed in Note 7, the Partnership has certain derivative financial instruments through December 29, 2017 to protect a portion of its commodity price risk exposure related to NGLs. MET serves as counterparty to the outstanding positions at September 30, 2017.

(13) Income Taxes

The operations of a partnership are generally not subject to income taxes because its income is taxed directly to its partners.

The Partnership is subject to the Texas margin tax, which is considered a state income tax, and is included in income tax expense on the Consolidated Statements of Operations. Since the tax base on the Texas margin tax is derived from an income-based measure, the margin tax is construed as an income tax and, therefore, the recognition of deferred taxes applies to the margin tax. The impact on deferred taxes as a result of this provision is immaterial. State income taxes attributable to the Texas margin tax of \$108 and \$180 were recorded in income tax expense for the three months ended September 30, 2017 and 2016, respectively. State income taxes attributable to the Texas margin tax of \$301 and \$422 were recorded in income tax expense for the nine months ended September 30, 2017 and 2016, respectively.

The Bipartisan Budget Act of 2015 provides that any tax adjustments resulting from partnership audits will generally be determined, and any resulting tax, interest and penalties collected, at the partnership level for tax years beginning after December 31, 2017. The Bipartisan Budget Act of 2015 allows a partnership to elect to apply these provisions to any return of the partnership filed for partnership taxable years beginning after the date of the enactment, November 2, 2015. The Partnership does not intend to elect to apply these provisions for any tax return filed for partnership taxable years beginning before January 1, 2018.

(14) Business Segments

The Partnership has four reportable segments: terminalling and storage, natural gas services, sulfur services and marine transportation. 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 2 in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 15, 2017, as amended, by Amendment No. 1 on Form 10-K/A filed on March 31, 2017. The Partnership evaluates the performance of its reportable segments based on operating income. There is no allocation of administrative expenses or interest expense.

Three Months Ended September 30, 2017	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Depreciation and Amortization	Operating Income (Loss) after Eliminations	Capital Expenditures and Plant Turnaround Costs
Terminalling and storage	\$ 57,805	\$ (1,192)	\$ 56,613	\$ 10,192	\$ (7,047)	\$ 5,761
Natural gas services	98,310	(226)	98,084	6,274	7,026	1,345
Sulfur services	27,024	—	27,024	2,020	(546)	426

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Marine transportation	12,400	(993)	11,407	1,800	474	418
Indirect selling, general and administrative	—	—		—	—	(4,391) —
Total	\$ 195,539	\$ (2,411)	\$ 193,128	\$ 20,286	\$ (4,484) \$ 7,950

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Three Months Ended September 30, 2016	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Depreciation and Amortization	Operating Income (Loss) after Eliminations	Capital Expenditures and Plant Turnaround Costs
Terminalling and storage	\$ 60,943	\$ (1,344)	\$ 59,599	\$ 10,828	\$ 5,748	\$ 2,929
Natural gas services	71,996	—	71,996	7,050	7,150	728
Sulfur services	29,096	—	29,096	1,997	(965)	632
Marine transportation	14,920	(1,074)	13,846	2,254	1,449	260
Indirect selling, general and administrative	—	—	—	—	(4,206)	—
Total	\$ 176,955	\$ (2,418)	\$ 174,537	\$ 22,129	\$ 9,176	\$ 4,549
Nine Months Ended September 30, 2017	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Depreciation and Amortization	Operating Income (Loss) after Eliminations	Capital Expenditures and Plant Turnaround Costs
Terminalling and storage	\$ 175,944	\$ (4,418)	\$ 171,526	\$ 35,996	\$ (5,896)	\$ 21,859
Natural gas services	328,136	(226)	327,910	18,640	29,723	6,580
Sulfur services	104,278	—	104,278	6,083	16,516	1,593
Marine transportation	38,958	(2,297)	36,661	5,229	2,852	1,113
Indirect selling, general and administrative	—	—	—	—	(13,083)	—
Total	\$ 647,316	\$ (6,941)	\$ 640,375	\$ 65,948	\$ 30,112	\$ 31,145
Nine Months Ended September 30, 2016	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Depreciation and Amortization	Operating Income (Loss) after Eliminations	Capital Expenditures and Plant Turnaround Costs
Terminalling and storage	\$ 183,014	\$ (4,100)	\$ 178,914	\$ 30,904	\$ 19,773	\$ 18,059
Natural gas services	253,486	—	253,486	21,007	24,695	3,881
Sulfur services	113,559	—	113,559	5,978	17,506	4,425
Marine transportation	46,854	(2,323)	44,531	8,377	(5,528)	2,197
Indirect selling, general and administrative	—	—	—	—	(12,676)	—
Total	\$ 596,913	\$ (6,423)	\$ 590,490	\$ 66,266	\$ 43,770	\$ 28,562

The Partnership's assets by reportable segment as of September 30, 2017 and December 31, 2016, are as follows:

	September 30, 2017	December 31, 2016
Total assets:		
Terminalling and storage	\$ 330,530	\$ 328,098
Natural gas services	702,845	684,722
Sulfur services	114,014	125,356
Marine transportation	100,661	108,187
Total assets	\$ 1,248,050	\$ 1,246,363

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(15) Unit Based Awards

The Partnership recognizes compensation cost related to unit-based awards to employees in its consolidated financial statements in accordance with certain provisions of ASC 718. The Partnership recognizes compensation costs related to unit-based awards to directors under certain provisions of ASC 505-50-55 related to equity-based payments to non-employees. Amounts recognized in selling, general, and administrative expense in the consolidated and condensed financial statements with respect to these plans are as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Employees	\$85	\$204	\$426	\$614
Non-employee directors	28	22	92	98
Total unit-based compensation expense	\$113	\$226	\$518	\$712

Long-Term Incentive Plans

The Partnership's general partner has a long-term incentive plan for employees and directors of the general partner and its affiliates who perform services for the Partnership.

On May 26, 2017, the unitholders of the Partnership approved the Martin Midstream Partners L.P. 2017 Restricted Unit Plan. The plan currently permits the grant of awards covering an aggregate of 3,000,000 common units, all of which can be awarded in the form of restricted units. The plan is administered by the compensation committee of the general partner's board of directors (the "Compensation Committee").

A restricted unit is a unit that is granted to grantees with certain vesting restrictions. Once these restrictions lapse, the grantee is entitled to full ownership of the unit without restrictions. In addition, the restricted units will vest upon a change of control of the Partnership, the general partner or Martin Resource Management or if the general partner ceases to be an affiliate of Martin Resource Management. The Partnership intends the issuance of the common units upon vesting of the restricted units under the plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, plan participants will not pay any consideration for the common units they receive, and the Partnership will receive no remuneration for the units. The restricted units issued to directors generally vest in equal annual installments over a four-year period. Restricted units issued to employees generally cliff vest after three years of service.

The restricted units are valued at their fair value at the date of grant which is equal to the market value of common units on such date. A summary of the restricted unit activity for the nine months ended September 30, 2017 is provided below:

**Number Weighted
of Units Average**

		Grant-Date Fair Value Per Unit
Non-vested, beginning of period	103,800	\$ 26.54
Granted	12,000	\$ 19.00
Vested	(7,300)	\$ 19.90
Forfeited	(5,750)	\$ 28.50
Non-Vested, end of period	102,750	\$ 25.24

Aggregate intrinsic value, end of period \$ 1,598

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A summary of the restricted units' aggregate intrinsic value (market value at vesting date) and fair value of units vested (market value at date of grant) during the three and nine months ended September 30, 2017 and 2016 is provided below:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Aggregate intrinsic value of units vested	\$ —	\$ —	-\$135	\$1,183
Fair value of units vested	—	—	190	1,685

As of September 30, 2017, there was \$516 of unrecognized compensation cost related to non-vested restricted units. That cost is expected to be recognized over a weighted-average period of 0.98 years.

(16) Condensed Consolidating Financial Information

The Partnership's operations are conducted by its operating subsidiaries as it has no independent assets or operations. Martin Operating Partnership L.P. (the "Operating Partnership"), the Partnership's wholly-owned subsidiary, and the Partnership's other operating subsidiaries have issued in the past, and may issue in the future, unconditional guarantees of senior or subordinated debt securities of the Partnership. The guarantees that have been issued are full, irrevocable and unconditional and joint and several. In addition, the Operating Partnership may also issue senior or subordinated debt securities which, if issued, will be fully, irrevocably and unconditionally guaranteed by the Partnership. Substantially all of the Partnership's operating subsidiaries are subsidiary guarantors of its outstanding senior unsecured notes and any subsidiaries other than the subsidiary guarantors are minor.

(17) Commitments and Contingencies

From time to time, the Partnership is subject to various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Partnership.

Pursuant to a Purchase Price Reimbursement Agreement between the Partnership and Martin Resource Management related to the Partnership's acquisition of the Redbird Gas Storage LLC ("Redbird") Class A interests on October 2, 2012, beginning in the second quarter of 2015, Martin Resource Management will reimburse the Partnership \$750 each quarter for four consecutive quarters as a reduction in the purchase price of the Redbird Class A interests. These payments are a result of Cardinal Gas Storage Partners LLC ("Cardinal") not achieving certain financial targets set forth in the Purchase Price Reimbursement Agreement. These payments are considered a reduction of the excess of the purchase price over the carrying value of the assets transferred to the Partnership from Martin Resource Management and will be recorded as an adjustment to "Partners' capital" in each quarter the payments are made. The agreement further provided for purchase price reimbursements of up to \$4,500 in 2016 in the event certain financial conditions were not met. For the nine months ended September 30, 2017 and 2016, the Partnership received \$1,125

and \$3,000, respectively, related to the Purchase Price Reimbursement Agreement. The amount received in the first quarter of 2017 represented the final payment under the Purchase Price Reimbursement Agreement.

Certain shippers filed complaints with the Railroad Commission of Texas (“RRC”) challenging the increased rates WTLPG implemented effective July 1, 2015. The complainants requested that the rate increase be suspended until the RRC has determined appropriate new rates. On March 8, 2016, the RRC issued an order directing that WTLPG’s rates “in effect prior to July 1, 2015, are the lawful rates for the duration of this docket unless changed by Commission order.” A hearing on the merits was held in front of a hearings examiner during the week of March 27, 2017. The hearings examiner issued a Proposal for Decision on September 29, 2017 which has been placed on the agenda of the Railroad Commission of Texas for consideration by the Commission on December 5, 2017.

In 2015, the Partnership was named as a defendant in the cause J. A. Davis Properties, LLC v. Martin Operating Partnership L.P., in the 38th Judicial District Court, Cameron Parish, Louisiana. The plaintiff alleged that the Partnership breached a lease agreement by failing to perform work to the plaintiff’s property as required under the lease agreement. The plaintiff originally sought to evict the Partnership from the leased property and to recover damages. Prior to trial, this matter

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was settled for a confidential amount in September of 2017. At September 30, 2017, the financial statements reflect the terms of the settlement and all amounts have been accrued as asset retirement obligations.

On December 31, 2015, the Partnership received a demand from a customer in its lubricants packaging business for defense and indemnity in connection with at least five lawsuits filed against it in the United States District Courts, which generally allege that the customer engaged in unlawful and deceptive business practices in connection with its marketing and advertising of its private label motor oil. The Partnership disputes that it has any obligation to defend or indemnify the customer for its conduct. Accordingly, on January 7, 2016, the Partnership filed a Complaint for Declaratory Judgment in the Chancery Court of Davidson County, Tennessee requesting a judicial determination that the Partnership does not owe the customer the demanded defense and indemnity obligations. On March 1, 2017, the court administratively closed the case. In the event that either party moves the court to reopen the case, we expect the court would grant such motion and reopen the case. If the case is reopened, we are currently unable to determine the exposure we may have in this matter, if any.

(18) Impairments and other charges

Hurricane Impact

On August 25, 2017, Hurricane Harvey made landfall as a Category 4 hurricane. The storm lingered over Texas and Louisiana for days producing over 50 inches of rain in some areas, resulting in widespread flooding and damage. The Partnership experienced an impact from Hurricane Harvey in its Terminalling and Storage and Sulfur Services segments, where damages were suffered to the Partnership's property, plant, and equipment at its Neches, Stanolind, Galveston, and Harbor Island terminals located along the Texas gulf coast. The damage incurred did not exceed the insurance deductible at these locations and therefore the Partnership does not expect to receive any insurance proceeds resulting from the damages caused by Hurricane Harvey. For the three months ended September 30, 2017, the Partnership recorded \$982 related to actual repairs made to assets damaged by Hurricane Harvey. Additionally, the Partnership recorded an accrual for \$3,725 in estimated repairs to be made to assets damaged by Hurricane Harvey. As a result of the damage sustained by Hurricane Harvey, the Partnership recorded a write-off in the amount of \$186 related to assets damaged. Hurricane Harvey impacted the Partnership's operations in our Terminalling segments, where the Partnership experienced an estimated reduction in net income and cash flow of approximately \$1,082 from lost volume and downtime due to the hurricane.

Marine Transportation Goodwill Impairment

During the three months ended June 30, 2016, the Partnership determined that the state of market conditions in the Marine Transportation reporting unit, including the demand for utilization, day rates and the current oversupply of inland tank barges, indicated that an impairment of goodwill may exist. As a result, the Partnership assessed qualitative factors and determined that the Partnership could not conclude it was more likely than not that the fair value of goodwill exceeded its carrying value. In turn, the Partnership prepared a quantitative analysis of the fair value of the goodwill as of June 30, 2016, based on the weighted average valuation of the aforementioned income and market based valuation approaches. The underlying results of the valuation were driven by our actual results during the six months ended June 30, 2016 and the pricing and market conditions existing as of June 30, 2016, which were below our forecasts at the time of the previous goodwill assessments. Other key estimates, assumptions and inputs

used in the valuation included long-term growth rates, discounts rates, terminal values, valuation multiples and relative valuations when comparing the reporting unit to similar businesses or asset bases. Upon completion of the analysis, a \$4,145 impairment of all goodwill in the Marine Transportation reporting unit was incurred during the second quarter of 2016. The Partnership did not recognize any other goodwill impairment losses for the nine months ended September 30, 2017 and 2016.

Divestiture of Non-Core Marine Equipment

During the nine months ended September 30, 2016, the Partnership disposed of 8 inland tank barges and 2 inland push boats, which were deemed non-core assets to the Partnership's Marine Transportation business. The Partnership recognized a loss related to the disposition of these assets in the amount of \$1,567, which is included in "Other operating loss" on the Partnership's Consolidated and Condensed Statements of Operations.

(19) Subsequent Events

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Quarterly Distribution. On October 19, 2017, the Partnership declared a quarterly cash distribution of \$0.50 per common unit for the third quarter of 2017, or \$2.00 per common unit on an annualized basis, which will be paid on November 14, 2017 to unitholders of record as of November 7, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

References in this quarterly report on Form 10-Q to "Martin Resource Management" refer to Martin Resource Management Corporation and its subsidiaries, unless the context otherwise requires. You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated and condensed financial statements and the notes thereto included elsewhere in this quarterly report.

Forward-Looking Statements

This quarterly report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements included in this quarterly report 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), including, without limitation, the information set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements. These statements can be identified by the use of forward-looking terminology including "forecast," "may," "believe," "will," "expect," "anticipate," "estimate," "continue," or other 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 "Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (the "SEC") on February 15, 2017, as amended, by Amendment No. 1 on Form 10-K/A for the year ended December 31, 2016 filed on March 31, 2017, and in this report.

Overview

We are a publicly traded limited partnership with a diverse set of operations focused primarily in the United States ("U.S.") Gulf Coast region. Our four primary business lines include:

• Terminalling and storage services for petroleum products and by-products including the refining of naphthenic crude oil and the blending and packaging of finished lubricants;

• Natural gas liquids transportation and distribution services and natural gas storage;

• Sulfur and sulfur-based products gathering, processing, marketing, manufacturing and distribution; and

• Marine transportation services for petroleum products and by-products.

The petroleum products and by-products we collect, transport, store and market are produced primarily by major and independent oil and gas companies who often turn to 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 these

products. We operate primarily in the U.S. Gulf Coast region. This region is a major hub for petroleum refining, natural gas gathering and processing, and support services for the exploration and production industry.

We were formed in 2002 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 petroleum products and by-products and other bulk liquids. Martin Resource Management is an important supplier and customer of ours. As of September 30, 2017, Martin Resource Management owned 16.3% of our total outstanding common limited partner units. Furthermore, Martin Resource Management

controls Martin Midstream GP LLC ("MMGP"), our general partner, by virtue of its 51% voting interest in MMGP Holdings, LLC ("Holdings"), the sole member of MMGP. MMGP owns a 2.0% general partner interest in us and all of our incentive distribution rights. Martin Resource Management directs our business operations through its ownership interests in and control of our general partner.

We entered into an omnibus agreement dated November 1, 2002, with Martin Resource Management (the "Omnibus Agreement") that governs, among other things, potential competition and indemnification obligations among the parties to the agreement, related party transactions, the provision of general administration and support services by Martin Resource Management and our use of certain of Martin Resource Management's trade names and trademarks. Under the terms of the Omnibus Agreement, the employees of Martin Resource Management are responsible for conducting our business and operating our assets.

Martin Resource Management has operated our business since 2002. Martin Resource Management began operating our natural gas services business in the 1950s and our sulfur business in the 1960s. It began our marine transportation business in the late 1980s. It entered into our fertilizer and terminalling and storage businesses in the early 1990s. In recent years, Martin Resource Management has increased the size of our asset base through expansions and strategic acquisitions.

Significant Recent Developments

Hurricane Impact. On August 25, 2017, Hurricane Harvey made landfall as a Category 4 hurricane. The storm lingered over Texas and Louisiana for days producing over 50 inches of rain in some areas, resulting in widespread flooding and damage. We experienced an impact from Hurricane Harvey in our Terminalling and Storage and Sulfur Services segments, where damages were suffered to our property, plant, and equipment at its Neches, Stanolind, Galveston, and Harbor Island terminals located along the Texas gulf coast. The damage incurred did not exceed the insurance deductible at these locations and therefore we do not expect to receive any insurance proceeds resulting from the damage from Hurricane Harvey. For the three months ended September 30, 2017, we recorded \$1.0 million related to actual repairs made to assets damaged by Hurricane Harvey. Additionally, we recorded an accrual for \$3.7 million in estimated repairs to be made to assets damaged by Hurricane Harvey. As a result of the damage sustained, we recorded a write-off in the amount of \$0.2 million related to assets damaged. Hurricane Harvey impacted our operations primarily in our Terminalling and Storage and Sulfur Services segments, where we experienced an estimated reduction in net income and cash flow of approximately \$1.1 million from lost volume and downtime due to the hurricane.

2017 Restricted Unit Plan. On May 26, 2017, our unitholders approved the Martin Midstream Partners L.P. 2017 Restricted Unit Plan (the "New LTIP"), which authorizes 3,000,000 common units to be available for delivery with respect to awards under the plan. A summary of the New LTIP is set forth under the caption "Proposal to Approve the Martin Midstream Partners L.P. 2017 Restricted Unit Plan" in our definitive proxy statement filed with the SEC on April 21, 2017 (the "Proxy Statement").

Equity Offering. On February 22, 2017, we completed a public offering of 2,990,000 common units at a price of \$18.00 per common unit, before the payment of underwriters' discounts, commissions and offering expenses. Total proceeds from the sale of the 2,990,000 common units, net of underwriters' discounts, commissions and offering expenses, were \$51.1 million. Additionally, our general partner contributed \$1.1 million in cash to us in conjunction with the issuance in order to maintain its 2.0% general partner interest in us. All of the net proceeds were used to pay down outstanding amounts under our revolving credit facility.

Acquisition of Terminalling Assets. On February 22, 2017, we acquired certain asphalt terminalling assets located in Hondo, Texas for a purchase price of \$27.4 million (the "Hondo Acquisition"). At the date of acquisition, Martin Resource Management was in the process of constructing an asphalt terminal facility in Hondo, Texas, which will

serve the asphalt market in San Antonio, Texas and surrounding areas. This terminal will have 178,000 barrels of asphalt storage with processing and blending capabilities. We will spend \$8.6 million to finalize construction of the terminal, which has been substantially completed by September 30, 2017. Martin Resource Management is obligated to pay us the amount required to complete the construction of the Hondo Terminal in excess of \$8.6 million, if any. The terminal will be supported by long-term contractual agreements with Martin Resource Management whereby we expect to receive cash flow of approximately \$5.0 million annually.

Repayment of Note Receivable. On February 14, 2017, we notified Martin Resource Management that we would be requesting voluntary repayment of the long-term Note Receivable - Affiliate of \$15.0 million plus accrued interest. During the second quarter of 2017, the Note Receivable - Affiliate was fully repaid.

Divestiture of Terminalling Assets. On December 21, 2016, we sold our 900,000 barrel crude oil storage terminal, refined product barge terminal, certain pipelines and related easements as well as dockage and trans-loading assets located in Corpus Christi, Texas (collectively the "CCCT Assets") to NuStar Logistics, L.P. ("NuStar") for gross consideration of \$107.0 million plus the reimbursement of certain capital expenditures and prepaid items of \$2.1 million. We received net proceeds of approximately \$93.3 million after transaction fees and expenses as well as the application of certain net cash payments previously received by us in conjunction with our mandated relocation of certain dockage assets to the purchase price in the amount of \$13.4 million. Proceeds from the sale were used to reduce outstanding borrowings under our revolving credit facility.

West Texas LPG Pipeline L.P. ("WTLPG") 2015 Rate Complaints. Certain shippers filed complaints with the Railroad Commission of Texas ("RRC") challenging the increased rates WTLPG implemented effective July 1, 2015. The complainants requested that the rate increase be suspended until the RRC has determined appropriate new rates. On March 8, 2016, the RRC issued an order directing that WTLPG's rates "in effect prior to July 1, 2015, are the lawful rates for the duration of this docket unless changed by Commission order." A hearing on the merits was held in front of a hearings examiner during the week of March 27, 2017. The hearings examiner issued a Proposal for Decision on September 29, 2017 which has been placed on the agenda of the Railroad Commission of Texas for consideration by the Commission on December 5, 2017.

Subsequent Events

Quarterly Distribution. On October 19, 2017, we declared a quarterly cash distribution of \$0.50 per common unit for the third quarter of 2017, or \$2.00 per common unit on an annualized basis, which will be paid on November 14, 2017 to unitholders of record as of November 7, 2017.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on the historical consolidated and condensed financial statements included elsewhere herein. We prepared these financial statements in conformity with United States generally accepted accounting principles ("U.S. GAAP" or "GAAP"). The preparation of these financial statements requires 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 base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. We routinely evaluate these estimates, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Our results may differ from these estimates, and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. Changes in these estimates could materially affect our financial position, results of operations or cash flows. You should also read Note 2, "Significant Accounting Policies" in Notes to Consolidated Financial Statements included within our Annual Report on Form 10-K for the year ended December 31, 2016. The following table evaluates the potential impact of estimates utilized during the periods ended September 30, 2017 and 2016:

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Estimates and Assumptions
<i>Allowance for Doubtful Accounts</i>		
We evaluate our allowance for doubtful accounts on an ongoing basis	We evaluate the collectability of our accounts receivable based on factors such	If actual collection results are not consistent with our judgments, we

and record adjustments when, in management's judgment, circumstances warrant. Reserves are recorded to reduce receivables to the amount ultimately expected to be collected.

Depreciation

as the customer's ability to pay, the age of the receivable and our historical collection experience. A deterioration in any of these factors could result in an increase in the allowance for doubtful accounts balance.

may experience an increase in uncollectible receivables. A 10% increase in our allowance for doubtful accounts would not significantly impact net income.

Depreciation expense is computed using the straight-line method over the useful life of the assets.

Determination of depreciation expense requires judgment regarding estimated useful lives and salvage values of property, plant and equipment. As circumstances warrant, estimates are reviewed to determine if any changes in the underlying assumptions are needed.

The lives of our fixed assets range from 3 - 50 years. If the depreciable lives of our assets were decreased by 10%, we estimate that annual depreciation expense would increase approximately \$8.2 million, resulting in a corresponding reduction in net income.

Impairment of Long-Lived Assets

We periodically evaluate whether the carrying value of long-lived assets has been impaired when circumstances indicate the carrying value of the assets may not be recoverable. These evaluations are based on undiscounted cash flow projections over the remaining useful life of the asset. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows. Any impairment loss is measured as the excess of the asset's carrying value over its fair value.

Our impairment analyses require management to use judgment in estimating future cash flows and useful lives, as well as assessing the probability of different outcomes.

No impairment of long-lived assets was recorded in addition to the \$0.2 million recorded during the three and nine months ended September 30, 2017 related to assets destroyed by Hurricane Harvey. No impairment of long-lived assets was recorded during the three and nine months ended September 30, 2016.

Impairment of Goodwill

Goodwill is subject to a fair-value based impairment test on an annual basis, or more frequently if events or changes in circumstances indicate that the fair value of any of our reporting units is less than its carrying amount.

We determine fair value using accepted valuation techniques, including discounted cash flow, the guideline public company method and the guideline transaction method. These analyses require management to make assumptions and estimates regarding industry and economic factors, future operating results and discount rates. We conduct impairment testing using present economic conditions, as well as future expectations.

During the three months ended June 30, 2016, we determined that based on a continued decrease in the demand for utilization and transportation day rates forecasted in our Marine Transportation reporting unit, an impairment of goodwill may exist. Based on the results of our impairment analysis, we determined that a \$4.1 million impairment loss of all goodwill in the Marine Transportation reporting unit was incurred during the three months ended June 30, 2016. See note 18 for more information. We are in the process of completing the most recent annual review as of August 31, 2017. Based on preliminary results of the evaluation, no impairment exists with the remaining goodwill.

Purchase Price Allocations

We allocate the purchase price of an acquired business to its identifiable assets (including identifiable intangible assets) and liabilities based on their fair values at the date of acquisition. Any excess of purchase price in excess

The determination of fair values of acquired assets and liabilities requires a significant level of management judgment. Fair values are estimated using various methods as deemed appropriate. For significant

If subsequent factors indicate that estimates and assumptions used to allocate costs to acquired assets and liabilities differ from actual results, the allocation between goodwill, other intangible assets and fixed assets could significantly differ. Any such differences could impact future earnings

of amounts allocated to identifiable transactions, third party
assets and liabilities is recorded as assessments may be engaged to
goodwill. As additional information assist in the valuation process.
becomes available, we may adjust the preliminary allocation for a
period of up to one year.

Asset Retirement Obligations

through depreciation and amortization
expense. Additionally, if estimated results
supporting the valuation of goodwill or other
intangible assets are not achieved,
impairments could result.

Asset retirement obligations ("AROs") associated with a contractual or regulatory remediation requirement are recorded at fair value in the period in which the obligation can be reasonably estimated and depreciated over the life of the related asset or contractual term. The liability is determined using a credit-adjusted risk-free interest rate and is accreted over time until the obligation is settled.

Determining the fair value of AROs requires management judgment to evaluate required remediation activities, estimate the cost of those activities and determine the appropriate interest rate.

If actual results differ from judgments and assumptions used in valuing an ARO, we may experience significant changes in ARO balances. The establishment of an ARO has no initial impact on earnings. During the nine months ended September 30, 2017, we made upward revisions to our asset retirement obligations in the amount of \$5.8 million.

Environmental Liabilities

We estimate environmental liabilities using both internal and external resources.

Activities include feasibility studies and other evaluations management considers appropriate. Environmental liabilities are recorded in the period in which the obligation can be reasonably estimated.

Estimating environmental liabilities requires significant management judgment as well as possible use of third party specialists knowledgeable in such matters.

Environmental liabilities have not adversely affected our results of operations or financial condition in the past, and we do not anticipate that they will in the future.

Our Relationship with Martin Resource Management

Martin Resource Management is engaged in the following principal business activities:

- providing land transportation of various liquids using a fleet of trucks and road vehicles and road trailers;
- distributing fuel oil, ammonia, asphalt, sulfuric acid, marine fuel and other liquids;
- providing marine bunkering and other shore-based marine services in Texas, Louisiana, Mississippi, Alabama, and Florida;
- operating a crude oil gathering business in Stephens, Arkansas;
- providing crude oil gathering, refining, and marketing services of base oils, asphalt, and distillate products in Smackover, Arkansas;
- providing crude oil marketing and transportation from the well head to the end market;
- operating an environmental consulting company;
- operating an engineering services company;
- supplying employees and services for the operation of our business;
- operating a crude oil, natural gas, natural gas liquids, and biofuels optimization business; and
- operating, solely for our account, the asphalt facilities in Omaha, Nebraska, Port Neches, Texas, Hondo, Texas, and South Houston, Texas.

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

Ownership

Martin Resource Management owns approximately 16.3% of the outstanding limited partner units. In addition, Martin Resource Management controls MMGP, our general partner, by virtue of its 51% voting interest in Holdings, the sole member of MMGP. MMGP owns a 2% general partner interest in us and all of our incentive distribution rights.

Management

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Martin Resource Management directs our business operations through its ownership interests in 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 behalf.

Related Party Agreements

The Omnibus Agreement requires us to reimburse Martin Resource Management for all direct expenses it incurs or payments it makes on our behalf or in connection with the operation of our business. We reimbursed Martin Resource Management for \$29.7 million of direct costs and expenses for the three months ended September 30, 2017 compared to \$30.7 million for the three months ended September 30, 2016. We reimbursed Martin Resource Management for \$96.8 million of direct costs and expenses for the nine months ended September 30, 2017 compared to \$94.9 million for the nine months ended September 30, 2016. There is no monetary limitation on the amount we are required to reimburse Martin Resource Management for direct expenses.

In addition to the direct expenses, under the Omnibus Agreement, we are required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. For the three months ended September 30, 2017 and 2016, the conflicts committee of the board of directors of the general partner of the Partnership (the "Conflicts Committee") approved reimbursement amounts of \$4.1 million and \$3.3 million, respectively. For the nine months ended September 30, 2017 and 2016, the Conflicts Committee approved reimbursement amounts of \$12.3 million and \$9.8 million, respectively. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually. These indirect expenses covered the centralized corporate functions Martin Resource Management provides for us, such as accounting, treasury, clerical, engineering, legal, billing, information technology, administration of insurance, general office expenses and employee benefit plans and other general corporate overhead functions we share with Martin Resource Management's retained businesses. The Omnibus Agreement also contains significant non-compete provisions and indemnity obligations. Martin Resource Management also licenses certain of its trademarks and trade names to us under the Omnibus Agreement.

The agreements include, but are not limited to, motor carrier agreements, marine transportation agreements, terminal services agreements, a tolling agreement, a sulfuric acid agreement, and various other miscellaneous agreements. Pursuant to the terms of the Omnibus Agreement, we are prohibited from entering into certain material agreements with Martin Resource Management without the approval of the Conflicts Committee.

For a more comprehensive discussion concerning the Omnibus Agreement and the other agreements that we have entered into with Martin Resource Management, please refer to "Item 13. Certain Relationships and Related Transactions, and Director Independence" set forth in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 15, 2017, as amended by Amendment No. 1 on Form 10-K/A filed on March 31, 2017.

Commercial

We have been and anticipate that we will continue to be both a significant customer and supplier of products and services offered by Martin Resource Management. Our motor carrier agreement with Martin Resource Management provides us with access to Martin Resource Management's fleet of road vehicles and road trailers to provide land transportation in the areas served by Martin Resource Management. Our ability to utilize Martin Resource Management's land transportation operations is currently a key component of our integrated distribution network.

In the aggregate, the impact of related party transactions included in cost of products sold accounted for approximately 9% and 11% of our total cost of products sold during the three months ended September 30, 2017 and 2016, respectively. In the aggregate, the impact of related party transactions included in cost of products sold accounted for approximately 10% of our total cost of products sold during both the nine months ended September 30, 2017 and 2016, respectively. We also purchase marine fuel from Martin Resource Management, which we account for as an operating expense.

Correspondingly, Martin Resource Management is one of our significant customers. Our sales to Martin Resource Management accounted for approximately 14% and 15% of our total revenues for the three months ended September 30, 2017 and 2016, respectively. Our sales to Martin Resource Management accounted for approximately 12% and 14% of our total revenues for the nine months ended September 30, 2017 and 2016, respectively. We have entered into certain agreements with Martin Resource Management pursuant to which we provide terminalling and storage and marine transportation services to its subsidiary, Martin Energy Services, LLC ("MES"), and MES provides terminal services to us to handle lubricants, greases and

drilling fluids. Additionally, we have entered into a long-term, fee for services-based tolling agreement with Martin Resource Management where Martin Resource Management agrees to pay us for the processing of its crude oil into finished products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts.

For a more comprehensive discussion concerning the agreements that we have entered into with Martin Resource Management, please refer to "Item 13. Certain Relationships and Related Transactions, and Director Independence" set forth in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 15, 2017, as amended by Amendment No. 1 on Form 10-K/A filed on March 31, 2017.

Approval and Review of Related Party Transactions

If we contemplate entering into a transaction, other than a routine or in the ordinary course of business transaction, in which a related person will have a direct or indirect material interest, the proposed transaction is submitted for consideration to the board of directors of our general partner or to our management, as appropriate. If the board of directors of our general partner is involved in the approval process, it determines whether to refer the matter to the Conflicts Committee of our general partner's board of directors, as constituted under our limited partnership agreement. If a matter is referred to the Conflicts Committee, it obtains information regarding the proposed transaction from management and determines whether to engage independent legal counsel or an independent financial advisor to advise the members of the committee regarding the transaction. If the Conflicts Committee retains such counsel or financial advisor, it considers such advice and, in the case of a financial advisor, such advisor's opinion as to whether the transaction is fair and reasonable to us and to our unitholders.

How We Evaluate Our Operations

Our management uses a variety of financial and operational measurements other than our financial statements prepared in accordance with U.S. GAAP to analyze our performance. These include: (1) net income before interest expense, income tax expense, and depreciation and amortization ("EBITDA"), (2) adjusted EBITDA and (3) distributable cash flow. Our management views these measures as important performance measures of core profitability for our operations and the ability to generate and distribute cash flow, and as key components of our internal financial reporting. We believe investors benefit from having access to the same financial measures that our management uses.

EBITDA and Adjusted EBITDA. Certain items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing an entity's financial performance, such as cost of capital and historical costs of depreciable assets. We have included information concerning EBITDA and adjusted EBITDA because they provide investors and management with additional information to better understand the following: financial performance of our assets without regard to financing methods, capital structure or historical cost basis; our operating performance and return on capital as compared to those of other similarly situated entities; and the viability of acquisitions and capital expenditure projects. Our method of computing adjusted EBITDA may not be the same method used to compute similar measures reported by other entities. The economic substance behind our use of adjusted EBITDA is to measure the ability of our assets to generate cash sufficient to pay interest costs, support our indebtedness and make distributions to our unit holders.

Distributable Cash Flow. Distributable cash flow is a significant performance measure used by our management and by external users of our financial statements, such as investors, commercial banks and research analysts, to compare basic cash flows generated by us to the cash distributions we expect to pay our unitholders. Distributable cash flow is also an important financial measure for our unitholders since it serves as an indicator of our success in providing a cash return on investment. Specifically, this financial measure indicates to investors whether or not we are generating cash flow at a level that can sustain or support an increase in our quarterly distribution rates. Distributable cash flow is also a quantitative standard used throughout the investment community with respect to publicly-traded partnerships

because the value of a unit of such an entity is generally determined by the unit's yield, which in turn is based on the amount of cash distributions the entity pays to a unitholder.

EBITDA, adjusted EBITDA and distributable cash flow should not be considered alternatives to, or more meaningful than, net income, cash flows from operating activities, or any other measure presented in accordance with U.S. GAAP. Our method of computing these measures may not be the same method used to compute similar measures reported by other entities.

Non-GAAP Financial Measures

The following table reconciles the non-GAAP financial measurements used by management to our most directly comparable GAAP measures for the three and nine months ended September 30, 2017 and 2016.

Reconciliation of EBITDA, Adjusted EBITDA, and Distributable Cash Flow

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income (loss)	\$ (16,286)	\$ (933)	\$ (1,714)	\$ 13,770
Adjustments:				
Interest expense, net	12,538	11,779	34,677	34,046
Income tax expense	108	180	301	422
Depreciation and amortization	20,286	22,129	65,948	66,266
EBITDA	16,646	33,155	99,212	114,504
Adjustments:				
Equity in earnings of WTLPG	(789)	(1,120)	(2,547)	(3,602)
(Gain) loss on sale of property, plant and equipment	187	(13)	327	1,582
Loss on impairment of goodwill	—	—	—	4,145
Unrealized mark-to-market on commodity derivatives	—	(742)	(4,037)	795
Hurricane damage repair accrual	3,725	—	3,725	—
Asset retirement obligation revision	5,547	—	5,547	—
Distributions from WTLPG	1,700	1,800	4,200	6,100
Unit-based compensation	113	226	518	712
Adjusted EBITDA	27,129	33,306	106,945	124,236
Adjustments:				
Interest expense, net	(12,538)	(11,779)	(34,677)	(34,046)
Income tax expense	(108)	(180)	(301)	(422)
Amortization of debt premium	(77)	(77)	(230)	(230)
Amortization of deferred debt issuance costs	725	718	2,170	2,965
Non-cash mark-to-market on interest rate derivatives	—	—	—	(206)
Payments for plant turnaround costs	8	(430)	(1,583)	(1,614)
Maintenance capital expenditures	(5,208)	(1,609)	(12,494)	(12,818)
Distributable Cash Flow	\$ 9,931	\$ 19,949	\$ 59,830	\$ 77,865

Results of Operations

The results of operations for the three and nine months ended September 30, 2017 and 2016 have been derived from our consolidated and condensed financial statements.

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 revenues and operating income by segment for the three and nine months ended September 30, 2017 and 2016. The results of operations for these interim periods are not necessarily indicative of the results of operations which might be expected for the entire year.

Our consolidated and condensed results of operations are presented on a comparative basis below. There are certain items of income and expense which we do not allocate on a segment basis. These items, including equity in earnings (loss) of unconsolidated entities, interest expense, and indirect selling, general and administrative expenses, are discussed following the comparative discussion of our results within each segment.

Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Operating Income (Loss)	Operating Income (Loss) Intersegment Eliminations	Operating Income (Loss) after Eliminations
Three Months Ended September 30, 2017						
	(in thousands)					
Terminalling and storage	\$57,805	\$ (1,192)	\$ 56,613	\$ (6,455)	\$ (592)	\$ (7,047)
Natural gas services	98,310	(226)	98,084	6,483	543	7,026
Sulfur services	27,024	—	27,024	567	(1,113)	(546)
Marine transportation	12,400	(993)	11,407	(688)	1,162	474
Indirect selling, general and administrative	—	—	—	(4,391)	—	(4,391)
Total	\$195,539	\$ (2,411)	\$ 193,128	\$ (4,484)	\$ —	\$ (4,484)
	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Operating Income (Loss)	Operating Income (Loss) Intersegment Eliminations	Operating Income (Loss) after Eliminations
Three Months Ended September 30, 2016						
Terminalling and storage	\$60,943	\$ (1,344)	\$ 59,599	\$ 6,513	\$ (765)	\$ 5,748
Natural gas services	71,996	—	71,996	6,455	695	7,150
Sulfur services	29,096	—	29,096	229	(1,194)	(965)
Marine transportation	14,920	(1,074)	13,846	185	1,264	1,449
Indirect selling, general and administrative	—	—	—	(4,206)	—	(4,206)
Total	\$176,955	\$ (2,418)	\$ 174,537	\$ 9,176	\$ —	\$ 9,176

Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Operating Income (Loss)	Operating Income (Loss) Intersegment Eliminations	Operating Income (Loss) after Eliminations
Nine Months Ended September 30, 2017						
	(in thousands)					
Terminalling and storage	\$175,944	\$ (4,418)	\$ 171,526	\$ (3,220)	\$ (2,676)	\$ (5,896)
Natural gas services	328,136	(226)	327,910	27,251	2,472	29,723
Sulfur services	104,278	—	104,278	19,173	(2,657)	16,516
Marine transportation	38,958	(2,297)	36,661	(9)	2,861	2,852
Indirect selling, general and administrative	—	—	—	(13,083)	—	(13,083)
Total	\$647,316	\$ (6,941)	\$ 640,375	\$ 30,112	\$ —	\$ 30,112

	Operating Revenues	Intersegment Revenues Eliminations	Operating Revenues after Eliminations	Operating Income (Loss)	Operating Income (Loss) after Intersegment Eliminations	Operating Income (Loss) after Eliminations
Nine Months Ended September 30, 2016	(in thousands)					
Terminalling and storage	\$183,014	\$ (4,100)	\$ 178,914	\$ 22,239	\$ (2,466)	\$ 19,773
Natural gas services	253,486	—	253,486	22,543	2,152	24,695
Sulfur services	113,559	—	113,559	20,187	(2,681)	17,506
Marine transportation	46,854	(2,323)	44,531	(8,523)	2,995	(5,528)
Indirect selling, general and administrative	—	—	—	(12,676)	—	(12,676)
Total	\$596,913	\$ (6,423)	\$ 590,490	\$ 43,770	\$ —	\$ 43,770

Terminalling and Storage Segment

Comparative Results of Operations for the Three Months Ended September 30, 2017 and 2016

	Three Months Ended		Variance	Percent Change
	September 30, 2017	September 30, 2016		
	(In thousands, except BBL per day)			
Revenues:				
Services	\$26,944	\$32,114	\$(5,170)	(16)%
Products	30,861	28,829	2,032	7 %
Total revenues	57,805	60,943	(3,138)	(5)%
Cost of products sold	26,451	24,118	2,333	10 %
Operating expenses	25,762	18,299	7,463	41 %
Selling, general and administrative expenses	1,668	1,439	229	16 %
Depreciation and amortization	10,192	10,828	(636)	(6)%
	(6,268)	6,259	(12,527)	(200)%
Other operating income (loss)	(187)	254	(441)	(174)%
Operating income (loss)	\$(6,455)	\$6,513	\$(12,968)	(199)%
Lubricant sales volumes (gallons)	5,217	5,196	21	— %
Shore-based throughput volumes (guaranteed minimum) (gallons)	41,666	50,000	(8,334)	(17)%
Smackover refinery throughput volumes (guaranteed minimum BBL per day)	6,500	6,500	—	— %
Corpus Christi crude terminal (BBL per day)	—	65,116	(65,116)	(100)%

Services revenues. Services revenue decreased \$5.2 million, of which \$4.3 million was a result of the disposition of the CCCT Assets on December 21, 2016 and \$1.4 million was due to decreased throughput fees at our shore-based terminals. Offsetting these decreases was a \$0.5 million increase in throughput fees at our Smackover refinery.

Products revenues. Product sales revenues increased primarily due to a 10% increase in sales volumes combined with a 5% increase in average sales price at our blending and packaging facilities.

Cost of products sold. Cost of products sold increased primarily due to a 10% increase in sales volumes combined with a 12% increase in average price per gallon at our blending and packaging facilities.

Operating expenses. Operating expenses at our shore-based terminals increased by \$5.9 million primarily due to an increase in the accrual related to asset retirement obligations at leased terminal facilities. Operating expenses at our specialty terminals increased \$1.4 million, of which \$3.5 million related to expense associated with Hurricane Harvey repairs. Offsetting this increase was a decrease of \$2.1 million as a result of the disposition of the CCCT Assets in the fourth quarter of 2016.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$0.2 million primarily due to increased legal fees.

Depreciation and amortization. The increase in depreciation and amortization is due to recent capital expenditures and the revision of useful lives of leasehold improvements at certain leased facilities not expected to be renewed at the end of the lease term, offset by the disposition of the CCCT Assets.

Other operating income (loss). Other operating income (loss) represents gains from the disposition of property, plant and equipment.

Comparative Results of Operations for the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30, 2017 2016		Variance	Percent Change	
	(In thousands, except BBL per day)				
Revenues:					
Services	\$79,523	\$97,663	\$(18,140)	(19))%
Products	96,421	85,351	11,070	13	%
Total revenues	175,944	183,014	(7,070)	(4))%
Cost of products sold	82,053	71,939	10,114	14	%
Operating expenses	56,488	54,740	1,748	3	%
Selling, general and administrative expenses	4,437	3,546	891	25	%
Depreciation and amortization	35,996	30,904	5,092	16	%
	(3,030)	21,885	(24,915)	(114))%
Other operating income (loss)	(190)	354	(544)	(154))%
Operating income (loss)	\$(3,220)	\$22,239	\$(25,459)	(114))%
Lubricant sales volumes (gallons)	15,912	15,536	376	2	%
Shore-based throughput volumes (guaranteed minimum) (gallons)	124,998	150,000	(25,002)	(17))%
Smackover refinery throughput volumes (guaranteed minimum) (BBL per day)	6,500	6,500	—	—	%
Corpus Christi crude terminal (BBL per day)	—	77,394	(77,394)	(100))%

Services revenues. Services revenue decreased \$18.1 million, of which \$15.8 million was a result of the disposition of the CCCT Assets on December 21, 2016 and \$3.4 million was due to decreased throughput fees at our shore-based terminals. Additionally, \$1.0 million is due to increased throughput fees at our Smackover refinery.

Products revenues. A 20% increase in average sales price combined with a 4% increase in sales volume at our shore-based terminals resulted in a \$10.3 million increase in products revenue. A 1% decrease in sales volumes combined with a 3% increase in average sales price at our blending and packaging facilities resulted in a \$0.7 million increase to products revenues.

Cost of products sold. Cost of products sold at our shore-based terminals increased \$9.7 million resulting from a 22% increase in average cost per gallon combined with a 4% increase in sales volumes. A 1% decrease in sales volumes combined with a 2% increase in average price per gallon at our blending and packaging facilities resulted in a \$0.4 million increase in cost of products sold.

Operating expenses. Operating expenses at our shore-based terminals increased by \$5.0 million primarily due to an increase in the accrual related to asset retirement obligations at leased terminal facilities. Operating expenses at our specialty

terminals decreased \$3.4 million, of which \$6.1 million is a result of the disposition of the CCCT Assets in the fourth quarter of 2016 and offsetting increases of \$3.5 million related to expense associated with Hurricane Harvey repairs and \$0.8 million related to our new asphalt plant in Hondo, Texas.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to increased legal fees.

Depreciation and amortization. The increase in depreciation and amortization is due to recent capital expenditures and the revision of useful lives of leasehold improvements at certain leased facilities not expected to be renewed at the end of the lease term, offset by the disposition of the CCCT Assets.

Other operating income (loss). Other operating income (loss) represents gains and losses from the disposition of property, plant and equipment.

Natural Gas Services Segment

Comparative Results of Operations for the Three Months Ended September 30, 2017 and 2016

	Three Months Ended September 30, 2017 2016 (In thousands)		Variance	Percent Change
Revenues:				
Services	\$14,253	\$14,618	\$ (365)	(2)%
Products	84,057	57,378	26,679	46 %
Total revenues	98,310	71,996	26,314	37 %
Cost of products sold	78,138	51,353	26,785	52 %
Operating expenses	5,528	5,822	(294)	(5)%
Selling, general and administrative expenses	1,889	1,309	580	44 %
Depreciation and amortization	6,274	7,050	(776)	(11)%
	6,481	6,462	19	— %
Other operating income (loss)	2	(7)	9	(129)%
Operating income	\$6,483	\$6,455	\$ 28	— %
Distributions from WTLPG	\$1,700	\$1,800	\$ (100)	(6)%
NGL sales volumes (Bbls)	1,943	1,592	351	22 %

Services Revenues. The decrease in services revenue is primarily a result of decreased storage rates at our Arcadia natural gas storage facility.

Products Revenues. Our average sales price per barrel increased \$7.22, or 20%, resulting in an increase to products revenues of \$11.5 million. The increase in average sales price per barrel was a result of an increase in market prices. Product sales volumes increased 22%, increasing products revenues by \$15.2 million.

Cost of products sold. Our average cost per barrel increased \$7.96, or 25%, increasing cost of products sold by \$12.7 million. The increase in average cost per barrel was a result of an increase in market prices. The increase in sales volume of 22% resulted in a \$14.1 million increase to cost of products sold. Our margins decreased \$0.74 per barrel, or 19%, during the period.

Operating expenses. Operating expenses decreased \$0.3 million primarily due to a \$0.2 million decrease in repair and maintenance costs at our natural gas storage facilities and decreased maintenance expense of \$0.1 million at our NGL East Texas pipeline.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to increased compensation expense.

Depreciation and amortization. Depreciation and amortization decreased \$0.8 million primarily due to decreases in amortization related to contracts acquired as part of the purchase of Cardinal Gas Storage Partners LLC ("Cardinal").

Other operating income (loss). Other operating income (loss) represents gains and losses from the disposition of property, plant and equipment.

Comparative Results of Operations for the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30, 2017 2016 (In thousands)		Variance	Percent Change
Revenues:				
Services	\$43,756	\$46,118	\$ (2,362)	(5)%
Products	284,380	207,368	77,012	37 %
Total revenues	328,136	253,486	74,650	29 %
Cost of products sold	258,444	186,934	71,510	38 %
Operating expenses	16,753	17,479	(726)	(4)%
Selling, general and administrative expenses	7,055	5,420	1,635	30 %
Depreciation and amortization	18,640	21,007	(2,367)	(11)%
	27,244	22,646	4,598	20 %
Other operating income (loss)	7	(103)	110	(107)%
Operating income	\$27,251	\$22,543	\$4,708	21 %
Distributions from WTLPG	\$4,200	\$6,100	\$ (1,900)	(31)%
NGL sales volumes (Bbls)	6,547	6,520	27	— %

Services Revenues. The decrease in services revenue is primarily a result of decreased storage rates at our Arcadia natural gas storage facility.

Products Revenues. Our average sales price per barrel increased \$11.62, or 37%, resulting in an increase to products revenues of \$75.8 million. The increase in average sales price per barrel was a result of an increase in market prices. Product sales volumes increased 0.4%, increasing products revenues by \$1.2 million.

Cost of products sold. Our average cost per barrel increased \$10.80, or 38%, increasing cost of products sold by \$70.4 million. The increase in average cost per barrel was a result of an increase in market prices. The increase in sales volume of 0.4% resulted in a \$1.1 million increase to cost of products sold. Our margins increased \$0.83 per barrel, or 26%, during the period.

Operating expenses. Operating expenses decreased \$0.7 million due to \$0.3 million of decreased maintenance expense at our NGL East Texas pipeline, decreased repairs and maintenance at our underground NGL storage facility of \$0.2 million, and decreased compensation expense of \$0.2 million.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily as a result of increased compensation expense.

Depreciation and amortization. Depreciation and amortization decreased \$2.4 million primarily due to a decrease in amortization related to contracts acquired as part of the purchase of Cardinal.

Other operating income (loss). Other operating income (loss) represents gains and losses from the disposition of property, plant and equipment.

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*Sulfur Services Segment**Comparative Results of Operations for the Three Months Ended September 30, 2017 and 2016*

	Three Months Ended September 30, 2017 2016 (In thousands)		Variance	Percent Change	
Revenues:					
Services	\$2,850	\$2,700	\$ 150	6	%
Products	24,174	26,396	(2,222)	(8)	%
Total revenues	27,024	29,096	(2,072)	(7)	%
Cost of products sold	19,807	21,601	(1,794)	(8)	%
Operating expenses	3,557	4,089	(532)	(13)	%
Selling, general and administrative expenses	1,071	946	125	13	%
Depreciation and amortization	2,020	1,997	23	1	%
	569	463	106	23	%
Other operating loss	(2)	(234)	232	(99)	%
Operating income	\$567	\$229	\$ 338	148	%
Sulfur (long tons)	198	241	(43)	(18)	%
Fertilizer (long tons)	52	47	5	11	%
Total sulfur services volumes (long tons)	250	288	(38)	(13)	%

Services revenues. Services revenue increased \$0.2 million as a result of renegotiation of contract terms effective January 2017.

Products revenues. Products revenues decreased \$3.7 million as a result of a 13% decrease in sales volumes, primarily attributable to an 18% decrease in sulfur volumes. A 6% increase in average sales price resulted in an offsetting increase of \$1.5 million.

Cost of products sold. A 13% decrease in sales volumes reduced cost of products sold by \$3.0 million. A 6% increase in average cost of products sold per ton caused an offsetting \$1.2 million increase to cost of products sold, as a result of rising commodity prices. Margin per ton increased \$0.82, or 5%.

Operating expenses. Our operating expenses decreased primarily as a result of a \$0.2 million reduction in repairs and maintenance to railcars and marine vessels, \$0.2 million reduction in utilization of outside towing, \$0.1 million in lower property taxes, and \$0.1 million in lower compensation expense. An offsetting increase of \$0.1 million resulted from an increase in tankerman fees.

Selling, general and administrative expenses. Selling, general and administrative expenses increased slightly as a result of increased compensation expense.

Other operating loss. Other operating loss represents losses from the disposition of property, plant and equipment.

Comparative Results of Operations for the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30,		Variance	Percent Change	
	2017	2016			
(In thousands)					
Revenues:					
Services	\$8,550	\$8,100	\$450	6	%
Products	95,728	105,459	(9,731)	(9)	%
Total revenues	104,278	113,559	(9,281)	(8)	%
Cost of products sold	65,678	74,006	(8,328)	(11)	%
Operating expenses	10,221	10,288	(67)	(1)	%
Selling, general and administrative expenses	3,099	2,834	265	9	%
Depreciation and amortization	6,083	5,978	105	2	%
	19,197	20,453	(1,256)	(6)	%
Other operating loss	(24)	(266)	242	(91)	%
Operating income	\$19,173	\$20,187	\$(1,014)	(5)	%
Sulfur (long tons)	607	579	28	5	%
Fertilizer (long tons)	217	217	—	—	%
Total sulfur services volumes (long tons)	824	796	28	4	%

Services revenues. Services revenue increased \$0.5 million as a result of the renegotiation of contract terms effective January 2017.

Products revenues. Products revenue decreased \$13.0 million as a result of a 12% decline in average sales price. A 4% increase in sales volumes, primarily attributable to a 5% increase in sulfur volumes, resulted in an offsetting increase of \$3.3 million.

Cost of products sold. A 14% decrease in average cost of products sold per ton reduced our cost of products sold by \$10.6 million. Offsetting this decrease was an increase in cost of products sold of \$2.2 million as a result of a 4% increase in sales volumes. Margin per ton decreased \$3.05, or 8%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$0.3 million due to increased compensation expense.

Depreciation and amortization. Depreciation expense increased \$0.1 million due to capital projects being completed and placed in service during the second half of 2016.

Other operating loss. Other operating loss represents losses from the disposition of property, plant and equipment.

Marine Transportation Segment**Comparative Results of Operations for the Three Months Ended September 30, 2017 and 2016**

	Three Months Ended September 30, 2017 2016		Variance	Percent Change
	(In thousands)			
Revenues	\$12,400	\$14,920	\$(2,520)	(17)%
Operating expenses	11,176	12,332	(1,156)	(9)%
Selling, general and administrative expenses	112	149	(37)	(25)%
Depreciation and amortization	1,800	2,254	(454)	(20)%
Operating income (loss)	\$(688)	\$185	\$(873)	(472)%

Inland revenues. The decrease in revenues is primarily attributable to decreased transportation rates and decreased utilization of the inland fleet resulting from an abundance of supply of marine equipment in our predominantly Gulf Coast market.

Operating expenses. The decrease in operating expenses is primarily a result of decreased compensation expense of \$0.8 million and pass-through expense (primarily barge tank cleaning) of \$0.6 million, offset by increased repairs and maintenance of \$0.2 million.

Selling, general and administrative expenses. Selling, general and administrative expenses remained consistent.

Depreciation and amortization. Depreciation and amortization decreased as a result of the disposal of property, plant and equipment combined with the impairment of long-lived assets recognized in the 4th quarter of 2016, offset by recent capital expenditures.

Other operating loss. Other operating loss represents losses from the disposition of property, plant and equipment.

Comparative Results of Operations for the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30, 2017 2016		Variance	Percent Change
	(In thousands)			
Revenues	\$38,958	\$46,854	\$(7,896)	(17)%
Operating expenses	33,331	41,400	(8,069)	(19)%
Selling, general and administrative expenses	287	(112)	399	(356)%
Loss on impairment of goodwill	—	4,145	(4,145)	(100)%
Depreciation and amortization	5,229	8,377	(3,148)	(38)%
Other operating loss	\$111	\$(6,956)	\$7,067	(102)%
Operating loss	(120)	(1,567)	1,447	(92)%
	\$(9)	\$(8,523)	\$8,514	(100)%

Inland revenues. A decrease of \$5.2 million is attributable to decreased transportation rates and decreased utilization of the inland fleet resulting from an abundance of supply of marine equipment in our predominantly Gulf Coast market.

Offshore revenues. A \$2.2 million decrease in offshore revenues is primarily the result of the 2016 period including the recognition of previously deferred revenues of \$1.5 million.

Operating expenses. The decrease in operating expenses is primarily a result of decreased compensation expense of \$3.5 million, repairs and maintenance of \$1.3 million, Jones Act claims of \$0.8 million, pass-through expenses (primarily barge tank cleaning) of \$0.6 million, property taxes of \$0.3 million, operating supplies of \$0.2 million, outside towing of \$0.2 million, barge rental expense of \$0.2 million, barge tank cleaning of \$0.2 million, and property insurance premiums of \$0.1 million.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to the 2016 period including the collection of a previously deemed uncollectible receivable of \$0.5 million.

Loss on impairment of goodwill. This represents the loss on impairment of goodwill in the Marine Transportation reporting unit during the second quarter of 2016.

Depreciation and amortization. Depreciation and amortization decreased as a result of the disposal of property, plant and equipment combined with the impairment of long-lived assets recognized in the fourth quarter of 2016, offset by recent capital expenditures.

Other operating loss. Other operating loss represents losses from the disposition of property, plant and equipment.

Equity in Earnings in and Distributions from WTLPG

Comparative Results for the Three Months Ended September 30, 2017 and 2016

	Three Months Ended September 30, 2017	2016	Variance	Percent Change
	(In thousands)			
Equity in earnings of WTLPG	\$789	\$1,120	\$ (331)	(30)%

	Three Months Ended September 30, 2017	2016	Variance	Percent Change
	(In thousands)			
Distributions from WTLPG	\$1,700	\$1,800	\$ (100)	(6)%

Equity in earnings from West Texas LPG Pipeline L.P. ("WTLPG") declined primarily due to an increase in repairs and maintenance on the asset as well as fuel and power expenses. Offsetting this was a decrease in pipeline lease expense. Distributions from WTLPG decreased \$0.1 million.

Comparative Results for the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30, 2017	2016	Variance	Percent Change
	(In thousands)			
Equity in earnings of WTLPG	\$2,547	\$3,602	\$ (1,055)	(29)%

	Nine Months Ended September 30, 2017	2016	Variance	Percent Change
	(In thousands)			
Distributions from WTLPG	\$4,200	\$6,100	\$ (1,900)	(31)%

Equity in earnings from WTLPG declined primarily due to lower volumes as well as increased pipeline lease expense, environmental and safety expense, and property taxes. Offsetting this was a decrease in repairs and maintenance on the asset. Distributions from WTLPG decreased \$1.9 million.

Interest Expense, Net**Comparative Components of Interest Expense, Net for the Three Months Ended September 30, 2017 and 2016**

	Three Months Ended September 30,		Variance	Percent Change
	2017	2016		
	(In thousands)			
Revolving loan facility	\$4,832	\$4,981	\$ (149)	(3)%
7.25% Senior notes	6,850	6,775	75	1%
Amortization of deferred debt issuance costs	725	718	7	1%
Amortization of debt discount	(77)	(77)	—	—%
Other	344	178	166	93%
Capitalized interest	(130)	(229)	99	(43)%
Interest income	(6)	(567)	561	(99)%
Total interest expense, net	\$12,538	\$11,779	\$ 759	6%

Comparative Components of Interest Expense, Net for the Nine Months Ended September 30, 2017 and 2016

	Nine Months Ended September 30,		Variance	Percent Change
	2017	2016		
	(In thousands)			
Revolving loan facility	\$12,931	\$13,707	\$ (776)	(6)%
7.25% Senior notes	20,175	20,401	(226)	(1)%
Amortization of deferred debt issuance costs	2,170	2,965	(795)	(27)%
Amortization of debt premium	(230)	(230)	—	—%
Impact of interest rate derivative activity, including cash settlements	—	(995)	995	(100)%
Other	1,155	798	357	45%
Capitalized interest	(575)	(911)	336	(37)%
Interest income	(949)	(1,689)	740	(44)%
Total interest expense, net	\$34,677	\$34,046	\$ 631	2%

Indirect Selling, General and Administrative Expenses

	Three Months Ended September 30,		Variance	Percent Change	Nine Months Ended September 30,		Variance	Percent Change
	2017	2016			2017	2016		
	(In thousands)				(In thousands)			
Indirect selling, general and administrative expenses	\$4,391	\$4,206	\$ 185	4%	\$13,083	\$12,676	\$ 407	3%

Indirect selling, general and administrative expenses increased for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due to a \$0.2 million increase in professional fees. Indirect selling, general and administrative expenses increased for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to a \$0.4 million increase in professional fees.

Martin Resource Management allocates to us a portion of its indirect selling, general and administrative expenses for services such as accounting, legal, treasury, clerical, billing, information technology, administration of insurance, engineering, general office expense and employee benefit plans and other general corporate overhead functions we

share with Martin Resource Management retained businesses. This allocation is based on the percentage of time spent by Martin Resource Management personnel that provide such centralized services. GAAP also permits other methods for allocation of these expenses, such as basing the allocation on the percentage of revenues contributed by a segment. The allocation of these expenses between Martin Resource Management and us is subject to a number of judgments and estimates, regardless of the method used. We can provide no assurances that our method of allocation, in the past or in the future, is or will be the most accurate or appropriate method of

allocation for these expenses. Other methods could result in a higher allocation of selling, general and administrative expense to us, which would reduce our net income.

Under the Omnibus Agreement, we are required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. The Conflicts Committee of our general partner approved the following reimbursement amounts during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017			Variance	Percent Change	Nine Months Ended September 30, 2017				
	2017	2016	(In thousands)			2017	2016	(In thousands)		
Conflicts Committee approved reimbursement amount	\$4,104	\$3,258	\$ 846		26%	\$12,312	\$9,775	\$ 2,537		26%

The amounts reflected above represent our allocable share of such expenses. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually.

Liquidity and Capital Resources

General

Our primary sources of liquidity to meet operating expenses, pay distributions to our unitholders and fund capital expenditures have historically been cash flows generated by our operations and access to debt and equity markets, both public and private. Management believes that expenditures for our current capital projects will be funded with cash flows from operations, current cash balances and our current borrowing capacity under the revolving credit facility. Given the current environment, we have altered and reduced our planned growth capital expenditures and are controlling our spending in an effort to preserve liquidity.

Recent Capital Markets Activity

On February 22, 2017, we completed a public offering of 2,990,000 common units at a price of \$18.00 per common unit, before the payment of underwriters' discounts, commissions and offering expenses. Total proceeds from the sale of the 2,990,000 common units, net of underwriters' discounts, commissions and offering expenses, were \$51.1 million. Additionally, our general partner contributed \$1.1 million in cash to us in conjunction with the issuance in order to maintain its 2.0% general partner interest in us. All of the net proceeds were used to pay down outstanding amounts under our revolving credit facility.

Recent Debt Financing Activity

Credit Facility Amendment. On April 27, 2016, we made certain strategic amendments to our revolving credit facility which, among other things, decreased our borrowing capacity from \$700.0 million to \$664.4 million and extended the maturity date of the facility from March 28, 2018 to March 28, 2020.

We believe that cash generated from operations and our borrowing capacity under our credit facility will be sufficient to meet our working capital requirements and anticipated maintenance capital expenditures in 2017.

Finally, our ability to satisfy our working capital requirements, to fund planned capital expenditures and to satisfy our debt service obligations will also depend upon our future operating performance, which is subject to certain risks. Please read "Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2016, filed with the

SEC on February 15, 2017, as amended by Amendment No. 1 on Form 10-K/A filed on March 31, 2017, for a discussion of such risks.

Cash Flows - Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The following table details the cash flow changes between the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30, 2017 2016		Variance	Percent Change
	(In thousands)			
Net cash provided by (used in):				
Operating activities	\$27,557	\$61,735	\$(34,178)	(55)%
Investing activities	(35,571)	(10,074)	(25,497)	253%
Financing activities	8,014	(51,682)	59,696	(116)%
Net increase (decrease) in cash and cash equivalents	\$—	\$(21)	\$21	(100)%

The change in net cash provided by operating activities for the nine months ended September 30, 2017 includes a decrease in operating results of \$15.5 million and a \$9.2 million unfavorable variance in working capital. Further decreases were due to a change in the cash settlement of derivative instruments of \$8.9 million and a decrease in distributions received from WTLPG of \$1.9 million.

Net cash used in investing activities for the nine months ended September 30, 2017 increased primarily as a result of the acquisition of certain asphalt terminalling assets of \$19.5 million. Proceeds from involuntary conversion of property, plant and equipment received in 2016 resulted in a \$23.4 million increase to the current period's net cash used in investing. Offsetting was a decrease of \$15.0 million for proceeds received from repayment of the Note receivable - affiliate and a decrease of \$1.9 million related to payments for capital expenditures and plant turnaround costs in 2017. Additionally, a decrease of \$2.2 million is due to the 2016 period including the acquisition of intangible assets.

The change in net cash used in financing activities for the nine months ended September 30, 2017 is due to a decrease in net repayments of long-term borrowings of \$31.0 million and the equity impact of the excess of the cash paid over the carrying value of the assets acquired in the Hondo Acquisition of \$7.9 million. This is offset by proceeds received from the issuance of common units (including the related general partner contribution) of \$52.2 million, and a decrease in cash distributions paid of \$42.8 million. We also paid \$5.2 million less in costs associated with our credit facility amendment during the current period.

Capital Expenditures and Plant Turnaround Costs

Our operations require continual investment to upgrade or enhance operations and to ensure compliance with safety, operational, and environmental regulations. Our capital expenditures consist primarily of:

- expansion capital expenditures to acquire assets to grow our business, to expand existing facilities, such as projects that increase operating capacity, or to reduce operating costs;
- maintenance capital expenditures made to maintain existing assets and operations; and
- plant turnaround costs made at our refinery to perform maintenance, overhaul and repair operations and to inspect, test and replace process materials and equipment.

The following table summarizes our capital expenditure activity, excluding amounts paid for acquisitions, for the periods presented:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands)			
Expansion capital expenditures	\$2,750	\$2,510	\$17,068	\$14,130
Maintenance capital expenditures	5,208	1,609	12,494	12,818
Plant turnaround costs	(8)	430	1,583	1,614
Total	\$7,950	\$4,549	\$31,145	\$28,562

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Expansion capital expenditures were made primarily in our Terminalling and Storage segment during the three and nine months ended September 30, 2017. Within our Terminalling and Storage segment, expenditures were made primarily on project construction at our newly acquired asphalt terminal in Hondo, Texas, at our Smackover refinery, and on certain organic growth projects ongoing in our specialty terminalling operations. Maintenance capital expenditures were made primarily in our Terminalling and Storage segment to maintain our existing assets and operations during the nine months ended September 30, 2017. For the nine months ended September 30, 2017 and 2016, plant turnaround costs relate to our Smackover refinery.

Expansion capital expenditures were made primarily in our Terminalling and Storage segment during the three and nine months ended September 30, 2016. Within our Terminalling and Storage segment, expenditures were made primarily at our Smackover refinery and on certain organic growth projects ongoing in our specialty terminalling operations. Maintenance capital expenditures were made primarily in our Terminalling and Storage, Sulfur Services, and Marine Transportation segments to maintain our existing assets and operations during the three and nine months ended September 30, 2016. The expenditures are primarily related to tank repairs in our specialty terminalling business and a three-year regulatory coast guard inspection on our two marine vessels that operate in our sulfur business. For the three and nine months ended September 30, 2016, plant turnaround costs relate to our Smackover refinery.

Capital Resources

Historically, we have generally satisfied our working capital requirements and funded our capital expenditures with cash generated from operations and borrowings. We expect our primary sources of funds for short-term liquidity will be cash flows from operations and borrowings under our credit facility.

Total Contractual Cash Obligations. A summary of our total contractual cash obligations as of September 30, 2017, is as follows:

Type of Obligation	Payments due by period				
	Total Obligation	Less than One Year	1-3 Years	3-5 Years	Due Thereafter
Revolving credit facility	\$463,000	\$—	\$463,000	\$—	\$ —
2021 Senior unsecured notes	373,800	—	—	373,800	—
Throughput commitment	22,886	5,992	12,470	4,424	—
Operating leases	29,754	7,985	10,328	3,478	7,963
Interest payable on fixed long-term debt obligations	91,465	27,101	54,201	10,163	—
Total contractual cash obligations	\$980,905	\$41,078	\$539,999	\$391,865	\$ 7,963

The interest payable under our credit facility is not reflected in the above table because such amounts depend on the outstanding balances and interest rates, which vary from time to time.

Letters of Credit. At September 30, 2017, we had outstanding irrevocable letters of credit in the amount of \$12.4 million, which were issued under our revolving credit facility.

Off Balance Sheet Arrangements. We do not have any off-balance sheet financing arrangements.

Description of Our Long-Term Debt

2021 Senior Notes

For a description of our 7.25% senior unsecured notes due 2021, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Description of Our Long-Term Debt" in our Annual Report on Form 10-K for the year ended December 31, 2016, as amended.

Revolving Credit Facility

At September 30, 2017, we maintained a \$664.4 million credit facility. This facility was most recently amended on April 27, 2016, when we made certain strategic amendments to our revolving credit facility which, among other things, decreased our borrowing capacity from \$700.0 million to \$664.4 million and extended the maturity date of the facility from March 28, 2018 to March 28, 2020.

As of September 30, 2017, we had \$463.0 million outstanding under the revolving credit facility and \$12.4 million of letters of credit issued, leaving a maximum available to be borrowed under our credit facility for future revolving credit borrowings and letters of credit of \$189.0 million. Subject to the financial covenants contained in our credit facility and based on our existing EBITDA (as defined in our credit facility) calculations, as of September 30, 2017, we have the ability to borrow approximately \$8.9 million of that amount. While our current debt to EBITDA financial covenant calculation is near the maximum allowed under our credit facility at the September 30, 2017 evaluation, we expect to improve leverage during the fourth quarter through the impacts of selling inventory built during the second and third quarters in our seasonal NGL business.

The revolving credit facility is used for ongoing working capital needs and general partnership purposes, and to finance permitted investments, acquisitions and capital expenditures. During the nine months ended September 30, 2017, the level of outstanding draws on our credit facility has ranged from a low of \$382.0 million to a high of \$492.0 million.

The credit facility is guaranteed by substantially all of our subsidiaries. Obligations under the credit facility are secured by first priority liens on substantially all of our assets and those of the guarantors, including, without limitation, inventory, accounts receivable, bank accounts, marine vessels, equipment, fixed assets and the interests in our subsidiaries and certain of our equity method investees.

We may prepay all amounts outstanding under the credit facility at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements. The credit facility requires mandatory prepayments of amounts outstanding thereunder with the net proceeds of certain asset sales, equity issuances and debt incurrences.

Indebtedness under the credit facility bears interest at our option at the Eurodollar Rate (the British Bankers Association LIBOR Rate) plus an applicable margin or the Base Rate (the highest of the Federal Funds Rate plus 0.50%, the 30-day Eurodollar Rate plus 1.0%, or the administrative agent's prime rate) plus an applicable margin. We pay a per annum fee on all letters of credit issued under the credit facility, and we pay a commitment fee per annum on the unused revolving credit availability under the credit facility. The letter of credit fee, the commitment fee and the applicable margins for our interest rate vary quarterly based on our leverage ratio (as defined in the credit facility, being generally computed as the ratio of total funded debt to consolidated earnings before interest, taxes, depreciation, amortization and certain other non-cash charges) and are as follows as of September 30, 2017:

<u>Leverage Ratio</u>	Base Rate Loans	Eurodollar Rate Loans	Letters of Credit
Less than 3.00 to 1.00	1.00 %	2.00 %	2.00 %
Greater than or equal to 3.00 to 1.00 and less than 3.50 to 1.00	1.25 %	2.25 %	2.25 %
Greater than or equal to 3.50 to 1.00 and less than 4.00 to 1.00	1.50 %	2.50 %	2.50 %
Greater than or equal to 4.00 to 1.00 and less than 4.50 to 1.00	1.75 %	2.75 %	2.75 %
Greater than or equal to 4.50 to 1.00	2.00 %	3.00 %	3.00 %

At September 30, 2017, the applicable margin for revolving loans that are LIBOR loans ranges from 2.00% to 3.00% and the applicable margin for revolving loans that are base prime rate loans ranges from 1.00% to 2.00%. The applicable margin for LIBOR borrowings at September 30, 2017 is 3.00%.

The credit facility includes financial covenants that are tested on a quarterly basis, based on the rolling four quarter period that ends on the last day of each fiscal quarter. The maximum permitted leverage ratio is 5.25 to 1.00 with a temporary springing provision to 5.50 to 1.00 under certain scenarios. The maximum permitted senior leverage ratio (as defined in the credit facility but generally computed as the ratio of total secured funded debt to consolidated

earnings before interest, taxes, depreciation, amortization and certain other non-cash charges) is 3.50 to 1.00. The minimum interest coverage ratio (as defined in the credit facility but generally computed as the ratio of consolidated earnings before interest, taxes, depreciation, amortization and certain other non-cash charges to consolidated interest charges) is 2.50 to 1.00.

In addition, the credit facility contains various covenants, which, among other things, limit our and our subsidiaries' ability to: (i) grant or assume liens; (ii) make investments (including investments in our joint ventures) and acquisitions; (iii) enter into certain types of hedging agreements; (iv) incur or assume indebtedness; (v) sell, transfer, assign or convey assets; (vi) repurchase our equity, make distributions and certain other restricted payments, but the credit facility permits us to make quarterly distributions to unitholders so long as no default or event of default exists under the credit facility; (vii) change the nature of our business; (viii) engage in transactions with affiliates; (ix) enter into certain burdensome agreements; (x) make

certain amendments to the Omnibus Agreement and our material agreements; (xi) make capital expenditures; and (xii) permit our joint ventures to incur indebtedness or grant certain liens.

The credit facility contains customary events of default, including, without limitation: (i) failure to pay any principal, interest, fees, expenses or other amounts when due; (ii) failure to meet the quarterly financial covenants; (iii) failure to observe any other agreement, obligation, or covenant in the credit facility or any related loan document, subject to cure periods for certain failures; (iv) the failure of any representation or warranty to be materially true and correct when made; (v) our, or any of our subsidiaries' default under other indebtedness that exceeds a threshold amount; (vi) bankruptcy or other insolvency events involving us or any of our subsidiaries; (vii) judgments against us or any of our subsidiaries, in excess of a threshold amount; (viii) certain ERISA events involving us or any of our subsidiaries, in excess of a threshold amount; (ix) a change in control (as defined in the credit facility); and (x) the invalidity of any of the loan documents or the failure of any of the collateral documents to create a lien on the collateral.

The credit facility also contains certain default provisions relating to Martin Resource Management. If Martin Resource Management no longer controls our general partner, the lenders under the credit facility may declare all amounts outstanding thereunder immediately due and payable. In addition, an event of default by Martin Resource Management under its credit facility could independently result in an event of default under our credit facility if it is deemed to have a material adverse effect on us.

If an event of default relating to bankruptcy or other insolvency events occurs with respect to us or any of our subsidiaries, all indebtedness under our credit facility will immediately become due and payable. If any other event of default exists under our credit facility, the lenders may terminate their commitments to lend us money, accelerate the maturity of the indebtedness outstanding under the credit facility and exercise other rights and remedies. In addition, if any event of default exists under our credit facility, the lenders may commence foreclosure or other actions against the collateral.

We are subject to interest rate risk on our credit facility due to the variable interest rate and may enter into interest rate swaps to reduce this variable rate risk.

We are in compliance with all debt covenants as of September 30, 2017 and expect to be in compliance for the next twelve months.

Seasonality

A substantial portion of our revenues are dependent on sales prices of products, particularly NGLs and fertilizers, which fluctuate in part based on winter and spring weather conditions. The demand for NGLs is strongest during the winter heating season and the refinery blending season. The demand for fertilizers is strongest during the early spring planting season. However, our WTLPG and natural gas storage divisions of the Natural Gas Services segment each provide stable cash flows and are not generally subject to seasonal demand factors. Additionally, our Terminalling and Storage and Marine Transportation segments and the molten sulfur business are typically not impacted by seasonal fluctuations and a significant portion of our net income is derived from our terminalling and storage, sulfur and marine transportation businesses. Therefore, we do not expect that our overall net income will be impacted by seasonality factors. However, extraordinary weather events, such as hurricanes, have in the past, and could in the future, impact our Terminalling and Storage and Marine Transportation segments.

Impact of Inflation

Inflation did not have a material impact on our results of operations for the nine months ended September 30, 2017 or 2016. Although the impact of inflation has been insignificant in recent years, it is still a factor in the U.S. economy and may increase the cost to acquire or replace property, plant and equipment. It may also increase the costs of labor

and supplies. In the future, increasing energy prices could adversely affect our results of operations. Diesel fuel, natural gas, chemicals and other supplies are recorded in operating expenses. An increase in price of these products would increase our operating expenses which could adversely affect net income. We cannot provide assurance that we will be able to pass along increased operating expenses to our customers.

Environmental Matters

Our operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. We incurred no material environmental costs, liabilities or expenditures to mitigate or eliminate environmental contamination during the nine months ended September 30, 2017 or 2016.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Commodity Risk. The Partnership from time to time uses derivatives to manage the risk of commodity price fluctuation. Commodity risk is the adverse effect on the value of a liability or future purchase that results from a change in commodity price. We have established a hedging policy and monitor and manage the commodity market risk associated with potential commodity risk exposure. In addition, we focus on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction.

We have entered into hedging transactions as of September 30, 2017 to protect a portion of our commodity price risk exposure. These hedging arrangements are in the form of swaps for NGLs. We have instruments totaling a gross notional quantity of 128,000 barrels settling during the period from October 1, 2017 through December 29, 2017. These instruments settle against the applicable pricing source for each grade and location. These instruments are recorded on our Consolidated and Condensed Balance Sheets at September 30, 2017 in "Fair value of derivatives" as a current asset of \$0.1 million. Based on the current net notional volume hedged as of September 30, 2017, a \$0.10 change in the expected settlement price of these contracts would not result in a material impact to the Partnership's net income.

Interest Rate Risk. We are exposed to changes in interest rates as a result of our credit facility, which had a weighted-average interest rate of 4.24% as of September 30, 2017. Based on the amount of unhedged floating rate debt owed by us on September 30, 2017, the impact of a 100 basis point increase in interest rates on this amount of debt would result in an increase in interest expense and a corresponding decrease in net income of approximately \$4.6 million annually.

We are not exposed to changes in interest rates with respect to our senior unsecured notes as these obligations are fixed rate. The estimated fair value of the senior unsecured notes was approximately \$384.6 million as of September 30, 2017, based on market prices of similar debt at September 30, 2017. Market risk is estimated as the potential decrease in fair value of our long-term debt resulting from a hypothetical increase of a 100 basis point increase in interest rates. Such an increase in interest rates would result in approximately a \$2.9 million decrease in fair value of our long-term debt at September 30, 2017.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. In accordance with Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of our general partner, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer of our general partner concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to certain legal proceedings claims and disputes that arise in the ordinary course of our business. Although we cannot predict the outcomes of these legal proceedings, we do not believe these actions, in the aggregate, will have a material adverse impact on our financial position, results of operations or liquidity. Information regarding legal proceedings is set forth in Note 17 in Part I of this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our annual report on Form 10-K filed with the SEC on February 15, 2017, as amended by Amendment No. 1 on Form 10-K/A filed on March 31, 2017.

Item 6. Exhibits

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this quarterly report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Martin Midstream
Partners L.P.

By: Martin
Midstream
GP LLC
Its General
Partner

Date: 10/25/2017 By: /s/ Robert
D.
Bondurant
Robert D.
Bondurant
Executive
Vice
President,
Treasurer,
Chief
Financial
Officer, and
Principal
Accounting
Officer

INDEX TO EXHIBITS

**Exhibit
Number Exhibit Name**

- 10.20* Third Amended and Restated Sales Agency Agreement, dated August 2, 2017, by and between the Operating Partnership and Martin Product Sales LLC.
- (1)
- 10.31* Second Amended to the First Amended and Restated Fuel Terminalling Services Agreement, dated October 1, 2017, by and between the Operating Partnership and Martin Energy Services, LLC.
- (1)
- 31.1* Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of Chief Executive Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Pursuant to SEC Release 34-47551, this Exhibit is furnished to the SEC and shall not be deemed to be "filed."
- 32.2* Certification of Chief Financial Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Pursuant to SEC Release 34-47551, this Exhibit is furnished to the SEC and shall not be deemed to be "filed."
- 101 Interactive Data: the following financial information from Martin Midstream Partners L.P.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 31, 2017, formatted in Extensible Business Reporting Language: (1) the Consolidated and Condensed Balance Sheets; (2) the Consolidated and Condensed Statements of Income; (3) the Consolidated and Condensed Statements of Cash Flows; (4) the Consolidated and Condensed Statements of Capital; and (5) the Notes to Consolidated and Condensed Financial Statements.

* Filed or furnished herewith

(1) Material has be redacted from this exhibit and filed separately with the Commission pursuant to the Rule 24b-2 of the Securities Exchange Act of 1934, as amended.