SMART ONLINE INC
Form DEF 14A
April 23, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-12

SMART ONLINE, INC.
(Name of Registrant as Specified In Its Charter)

Not Applicable
(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

SMART ONLINE, INC.
2530 Meridian Parkway
2nd Floor
Durham, North Carolina 27713

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 19, 2008

You are cordially invited to attend the Annual Meeting of Stockholders of Smart Online, Inc., which will be held on Thursday, June 19, 2008, at 9:00 a.m. local time, in the Asheville Room, at 2530 Meridian Parkway, 3rd Floor, Durham, North Carolina 27713, to consider and vote upon the following matters and to transact such other business as may be properly brought before the meeting:

- Proposal No. 1 — Election of six directors
- Proposal No. 2 — Ratification of the appointment of Sherb & Co., LLP as independent auditors for the fiscal year ending December 31, 2008

Stockholders of record at the close of business on April 21, 2008 are entitled to notice of and to vote at the annual meeting and any and all adjournments or postponements thereof.

By Order of the Board of Directors

/s/ Thomas Furr

Thomas Furr
Secretary

Durham, North Carolina
April 23, 2008

IMPORTANT: Whether or not you plan to attend the meeting in person, please submit voting instructions for your shares promptly using the directions on your proxy card to vote by one of the following methods: (1) over the Internet, by accessing the website address printed on your proxy card; or (2) by marking, dating, and signing your proxy card and returning it in the accompanying postage-paid envelope.

SMART ONLINE, INC.

PROXY STATEMENT

MEETING INFORMATION

The Board of Directors of Smart Online, Inc. (the “Company”) is asking for your proxy for use at the 2008 Annual Meeting of Stockholders and any adjournments of the meeting. The meeting will be held in the Asheville Room at 2530 Meridian Parkway, 3rd Floor, Durham, North Carolina 27713 on Thursday, June 19, 2008, at 9:00 a.m. local time, to conduct the following business and such other business as may be properly brought before the meeting: (1) election of six directors; and (2) ratification of the appointment of Sherb & Co., LLP as the Company’s independent auditors for the fiscal year ending December 31, 2008.

The Board of Directors recommends that you vote FOR the election of the director nominees listed in this proxy statement and FOR ratification of the appointment of Sherb & Co., LLP as the Company’s independent auditors for the fiscal year ending December 31, 2008.

The Company intends to mail its 2007 Annual Report, this proxy statement and the accompanying proxy card to stockholders beginning on or about April 28, 2008. The Annual Report and proxy statement will also be available on the Internet at www.smartonline.com/annualreport.html. The Annual Report is not part of the Company’s proxy soliciting materials.

VOTING PROCEDURES

Who Can Vote

Only stockholders of record at the close of business on April 21, 2008 are entitled to vote at the meeting and any adjournments of the meeting. At that time, there were 18,234,627 shares of the Company’s common stock outstanding, each of which is entitled to one vote on each matter submitted to a vote at the meeting. The common stock is the only class of securities of the Company that has the right to vote at the meeting.

How You Can Vote

You may vote shares by proxy or in person using one of the following methods:

- Voting by Internet. You can vote over the Internet using the directions on your proxy card by accessing the website address printed on the card. The deadline for voting over the Internet is Wednesday, June 18, 2008 at 7:00 p.m. Eastern time. If you vote over the Internet you need not return your proxy card.

- Voting by Proxy Card. You can vote by completing and returning your signed proxy card. To vote using your proxy card, please mark, date, and sign the card and return it by mail in the accompanying postage-paid envelope. You should mail your signed proxy card sufficiently in advance for it to be received by Wednesday, June 18, 2008.

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Voting in Person. You can vote in person at the meeting if you are the record owner of the shares to be voted. You also can vote in person at the meeting if you present a properly signed proxy that authorizes you to vote shares on behalf of the record owner. If your shares are held by a broker, bank, custodian, or other nominee, to vote in person at the meeting you must present a letter or other proxy appointment, signed on behalf of the broker or nominee, granting you authority to vote the shares.

How You Can Revoke Your Proxy and Change Your Vote

You can revoke your proxy and change your vote by (1) attending the meeting and voting in person, (2) delivering written notice of revocation of your proxy to the Secretary of the Company at any time before voting is closed, (3) timely submitting another signed proxy card bearing a later date, or (4) timely submitting new voting instructions over the Internet as described above.

How Your Proxy Will Be Voted

If you timely submit your proxy over the Internet or by proxy card as described above and have not revoked it, your shares will be voted or withheld from voting in accordance with the voting instructions you gave. If you timely submit your proxy without giving contrary voting instructions, your shares will be voted “FOR” election of the director nominees listed in this proxy statement and “FOR” ratification of the appointment of Sherb & Co., LLP as the Company’s independent auditors for the fiscal year ending December 31, 2008.

How You Can Vote Shares Held by a Broker or Other Nominee

If your shares are held by a broker, bank, custodian, or other nominee, you may have received a voting instruction form with this proxy statement instead of a proxy card. The voting instruction form is provided on behalf of the broker or other nominee to permit you to give directions to the broker or nominee on how to vote your shares. Please refer to the voting instruction form or contact the broker or nominee to determine the voting methods available to you.

Quorum Required

A quorum must be present at the meeting before business can be conducted. A quorum will be present if a majority of the shares entitled to vote are represented in person or by proxy at the meeting. Shares represented by a proxy with instructions to withhold authority to vote or to abstain from voting on any matter will be considered present for purposes of determining the existence of a quorum. Shares represented by a proxy as to which a broker, bank, custodian, or other nominee has indicated that it does not have discretionary authority to vote on any matter (sometimes referred to as a “broker non-vote”) will also be considered present for purposes of determining the existence of a quorum.

Vote Required

Directors will be elected by a plurality of the votes cast. Thus the six nominees who receive the most votes will be elected to fill the available positions. Stockholders do not have the right to vote cumulatively in electing directors. Withholding authority in your proxy to vote for a nominee will result in the nominee receiving fewer votes.

The proposed ratification of the appointment of Sherb & Co., LLP as independent auditors for fiscal 2008 will be approved if the votes cast for approval exceed the votes cast against approval.

Abstentions and broker non-votes will not be counted for purposes of determining whether these proposals have received sufficient votes for approval.

PROPOSAL NO. 1 — ELECTION OF DIRECTORS

Nominees for Election as Directors

All six of the persons nominated for election to the Board of Directors at the annual meeting are currently serving as directors of the Company. The Company is not aware of any nominee who will be unable or will decline to serve as a director. If a nominee becomes unable or declines to serve, the accompanying proxy may be voted for a substitute nominee, if any, designated by the Board of Directors. The term of office of each person elected as a director will continue until the later of the next annual meeting of stockholders or until such time as his successor has been duly elected and qualified.

The following table lists the nominees for election and information about each.

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Name	Age	Principal Occupation and Background
Doron Roethler	51	Chairman of the Board. Mr. Roethler was appointed as Chairman of the Company's Board of Directors on November 27, 2007. He has been the managing director and indirect majority owner of TMF Airmarine BV, an independent aviation spare parts company, since 1988. He is also the indirect owner of Smart IL, Ltd., a software development company that had been a development partner and customer of the Company. He received a B.A. in behavioral science from Ben Gurion University, Beer Sheva, Israel.
David E. Colburn	61	President, Chief Executive Officer, and Director. Mr. Colburn was appointed to the Company's Board of Directors on May 31, 2007, as Interim President and Chief Executive Officer on September 11, 2007, and as Chairman of the Board on October 19, 2007. He completed his service as Chairman on November 27, 2007 and was appointed as the Company's President and Chief Executive Officer effective December 12, 2007. He served as President, Global Manufacturing Industry Practice, of Electronic Data Systems ("EDS"), a provider of business and technology solutions, from 2004 to 2006. Mr. Colburn was responsible for developing EDS's global manufacturing industry business and sales strategy for its automotive, industrial manufacturing, high tech, and aerospace & defense segments. Mr. Colburn previously served as EDS's Area Director, Manufacturing - Automotive (2003 - 2004); Vice President of the Global Industry Group (2002 - 2003); and Vice President of Global Industrial Manufacturing within the Global Industry Group (2001 - 2002). In addition, Mr. Colburn has served as president of four different corporations in the manufacturing and industrial segments. He has served as chairman and on the boards of directors of several automotive industry associations, and he is a member of the National Association of Corporate Directors ("NACD"). Mr. Colburn received a B.A. in Liberal Arts from Robert Wesleyan College and previously served on that institution's Board of Trustees. He has enrolled in continuing education programs at, among others, the University of Michigan and the University of Pennsylvania.
Thomas P. Furr	41	Chief Strategy Officer, Secretary, and Director. Mr. Furr became Vice President, Sales of Smart Online in 2001, Chief Operating Officer in November 2005, Chief Strategy Officer in August 2007, and Secretary in March 2008. In 2002, he also became a Director. He was a co-founder and president of Kinetics, Inc. ("Kinetics"), one of the first online commerce providers for the small

		business industry, from 1994 until 1995. The Company purchased Kinetics in 1995. After founding Kinetics, Mr. Furr was with the Plurimus Corporation from 1999 until 2001, where he managed its southeast direct sales efforts. Previously, from 1996 until 1999 he managed East Coast direct sales and channel efforts in Canada and South Africa for Information Retrieval Corporation, a leading multi-national back-end CRM/help desk company. Mr. Furr holds a bachelor’s degree in finance from East Carolina University.
Shlomo Elia	65	Director. Mr. Elia has served on the Company’s Board of Directors since November 2006 and was originally recommended for appointment to the Board by Atlas Capital SA, one of the Company’s stockholders. Mr. Elia is a Director of 3Pen Ltd. (“3Pen”), a private holding company focusing on business opportunities in Internet infrastructure and telecommunications. Prior to founding 3Pen in 1999, Mr. Elia held several senior positions in the Israeli Defense Forces (“I.D.F.”), including the post of the Military Governor of the West-Bank (1982-1984) and Commander of the Liaison Unit for South Lebanon (1984-1985). During his service, among other activities, General Elia was engaged for a year as a Research Fellow in the Institute of International Strategic Affairs at U.C.L.A. Since his retirement from the I.D.F., he is involved in communication projects in Nigeria and West Africa, and construction projects in Romania. Among his civilian activities, Mr. Elia was Chairman of the National Tourist Board and currently is Chairman of 3Pen Technologies Ltd. and co-chairman of the Israeli Soldiers Welfare Association. Mr. Elia holds a B.A. degree in Modern History of the Middle-East from Tel Aviv University.

C. James Meese, Jr.	66	Director. Mr. Meese has served on the Company's Board of Directors since November 2006. Mr. Meese is President and founder of Business Development Associates, Inc. ("BDA"), a strategic advisory firm. Since 1989, BDA has provided advice and assistance to both middle market and emerging companies on issues of company valuations, acquisitions and divestitures, market development, corporate governance, capital acquisition, strategic planning, exit strategies, and organizational structuring. Prior to 1989, Mr. Meese spent approximately 20 years in various senior corporate marketing, business development, and finance positions. Sixteen of those years were spent with West Pharmaceutical Services Inc. ("West"). He was a member of the company's Top Management Committee during his last four years with West. Mr. Meese is also a director of DRI Corporation (NASDAQ:TBUS) ("DRI"), The Altoona Railroaders Memorial Museum, and The Raleigh Rescue Mission and its Foundation. He is a former Chair and current member of the DRI Audit Committee, Secretary of the Railroaders Museum Board, President of the Raleigh Rescue Mission Board, and serves on a variety of committees in his directorships. He is a member of the NACD and is designated as the Company's audit committee financial expert. Mr. Meese received a B.A. degree in Economics from the University of Pennsylvania and an M.B.A. from Temple University.
Dror Zoreff	62	Director. Mr. Zoreff has served on the Company's Board of Directors since April 1, 2008. He is the President and CEO of Donor Management Services, Inc., a New York-based company incorporated in March 2008, which provides major donors, corporations, and foundations a unique set of tools and services to ensure their charitable gifts are properly used and achieve the desired impact. From 1999 to 2008, Mr. Zoreff served as Consultant to the President and CEO of United Retail Group Inc., a specialty retailer of large size women's fashions. From 1997 to 1999, he was Vice President of International Operations at Russ Berrie, Inc., a designer, importer, marketer, and distributor of gift and infant and juvenile consumer products. Prior to 1997, Mr. Zoreff held positions with The College of Judea & Samaria, Glenoit Industries Ltd, and the Jewish Agency for Israel. Mr. Zoreff holds a B.A. degree in Business Administration from Manchester University and an M.A. degree in Business Administration from Tel Aviv University.

The Board of Directors recommends stockholders
vote FOR election of the nominees named above.

Director Not Standing for Re-election

Philippe Pouponnot	38	Director. Mr. Pouponnot has served on the Company's Board of Directors since November 2006 and was originally recommended for appointment to the Board by The Blueline Fund, one of the Company's stockholders. Mr. Pouponnot is a Director of Azur Management SAL ("Azur"), a business engaged in the study and management of assets and companies. Mr. Pouponnot has been a Director of Azur since its founding in 1999. In his position with Azur, he has gained international experience working with banks and brokers in all phases of investment management, including administrative, investment, and commercial transactions. He also serves as an asset and investment manager for companies and high net worth individuals. Mr. Pouponnot has also worked closely with companies in a variety of sectors in matters ranging from formation to reorganization to liquidation. Mr. Pouponnot informed the Company's Board of Directors in March 2008 that he would be unable to stand for re-election due to increased business commitments.

Executive Officers

The names of the Company's current executive officers are listed below. The Company's executive officers are appointed by its Board of Directors to hold office until their successors are appointed.

Name	Age	Position
David E. Colburn	61	President, Chief Executive Officer, and Director
Neile King	37	Chief Operating Officer
Thomas P. Furr	41	Chief Strategy Officer, Secretary, and Director
George Cahill	60	Interim Chief Financial Officer

Neile King, Chief Operating Officer. Mr. King was appointed as the Company's Chief Operating Officer on February 18, 2008 after serving as the Company's Director of Operations and Vice President of Business Services since September 2007. Prior to joining the Company, from March 2006 to September 2007, Mr. King was the Director of Operations at DataFlux Corporation, a SAS company and data quality vendor. From April 1999 to July 2005, Mr. King held several management positions within the IT Solutions group in the Operations, Marketing, Contracts Management, and Sales Operations organizations with Hill-Rom Company, Inc., a healthcare information technology services provider.

George Cahill, Interim Chief Financial Officer. Mr. Cahill was appointed as the Company's Interim Chief Financial Officer on April 22, 2008. Since 1992, Mr. Cahill has been the principal of Cahill Financial Consulting, a North Carolina registered certified public accounting firm providing business and non-profit management consulting with services including full and part-time chief financial officer roles. Mr. Cahill has served with various companies in senior finance roles, including as (1) Vice President Finance, Controller, and Assistant Secretary of Carolina Door

Controls, a national distributor of automatic doors for commercial applications, from 1999 to 2005; (2) Chief Financial Officer and Controller of Customer Access Resources, Inc., an outsourcing company that specialized in e-support activities for financial institutions, from 1998 to 1999; and (3) Chief Financial Officer and Controller of HMY Star, Inc., a 20-location retail sales and financial services organization, from 1995 to 1997.

Prior to founding Cahill Financial Consulting, Mr. Cahill worked from 1978 until 1991 with Carolina Power and Light Company, now Progress Energy, Inc., in various roles, including Program Director-Employee Benefits, Manager-Financial Administration, Manager-Investor Relations & Financial Analysis, and Director-Financial Analysis. Prior to joining Carolina Power and Light Company, Mr. Cahill was a Senior Accountant with Deloitte Haskins and Sells, now Deloitte & Touche LLP. Mr. Cahill is a certified public accountant in North Carolina with an MBA majoring in finance and accounting from The Fuqua School of Business at Duke University and holds a BSME in mechanical engineering also from Duke University.

Code of Ethics

The Company has adopted a Code of Ethics applicable to its executives, including the principal executive officer, principal financial officer, and principal accounting officer, as defined by applicable rules of the Securities and Exchange Commission (“SEC”). It is publicly available on the Company’s website at www.smartonline.com. If the Company makes any amendments to the Code of Ethics other than technical, administrative, or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of the Code of Ethics to the Company’s Chief Executive Officer, Chief Financial Officer, or certain other finance executives, the Company will disclose the nature of the amendment or waiver, its effective date, and to whom it applies on the Company’s website at www.smartonline.com or in a report on Form 8-K filed with the SEC.

Board Composition and Independence of Directors

The size of the Board of Directors is currently fixed at seven members, but that number is set to decrease to six members immediately prior to the 2008 annual meeting. Six persons have been nominated for election at the annual meeting. Under the rules of the SEC, the accompanying proxy cannot be voted for more than six nominees.

The Company is not required to comply with the listing requirements of The Nasdaq Stock Market (“Nasdaq”) since its securities are not listed on Nasdaq. Nasdaq listing requirements mandate that a majority of the members of a listed company’s board of directors be “independent” directors as defined under Nasdaq Marketplace Rules. Although not currently required, the Board has determined that four of the present directors — Messrs. Elia, Meese, Pouponnot, and Zoreff — are each an “independent” director within the meaning of Nasdaq Marketplace Rules. All except Mr. Pouponnot are standing for re-election. Therefore, assuming all six nominees are elected at the annual meeting, the Board will no longer have a majority of “independent” directors after the annual meeting.

In 2007, two directors resigned from the Company’s Board of Directors. On September 11, 2007, Dennis Michael Nouri resigned, and on October 19, 2007, Jeffrey W. LeRose resigned. The Board of Directors had determined that Mr. LeRose was an “independent” director within the meaning of Nasdaq Marketplace Rules. Mr. Nouri was not considered “independent” as he also served as the Company’s President and Chief Executive Officer.

Attendance at Meetings

The Board of Directors held 11 meetings during the fiscal year ended December 31, 2007. Each incumbent director attended or participated in at least 75% of the aggregate of (1) the number of meetings of the Board of Directors held in fiscal 2007 during the period he served as a director and (2) the number of meetings of committees on which he served that were held during the period of his service.

The Company expects all directors to attend each annual meeting of stockholders, absent good reason. Six of the seven then serving directors attended the annual meeting of stockholders in 2007.

Standing Committees

The Company’s Board of Directors has three standing committees: the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee. Copies of the charters of these committees, as they may be amended from time to time, are available on the Company’s website at www.smartonline.com.

Audit Committee. The Audit Committee is composed of Mr. Meese and Mr. Elia. Mr. Meese serves as chairman of the Committee. The Company’s Board of Directors, in its business judgment, has made an affirmative determination that Mr. Meese and Mr. Elia meet the definition of “independent” director, as that term is defined by Nasdaq Marketplace Rules and SEC rules, and they each meet the special independence requirements applicable to audit

committee members. Both members have past financial experience resulting in their financial sophistication as would be required by Nasdaq Marketplace Rules. The Board of Directors has determined that Mr. Meese meets the definition of "audit committee financial expert" as that term is defined in Regulation S-K. Mr. Colburn served on the Audit Committee until March 31, 2008 and was replaced by Mr. Elia because he was no longer an "independent" director. The Company's securities are quoted on the OTC Bulletin Board and are not listed on a national securities exchange. Therefore, neither the SEC nor the Nasdaq Marketplace Rules regarding audit committees are applicable to the Company's Board of Directors.

The Audit Committee was established by the Board of Directors for the purpose of assisting it in fulfilling its responsibilities with respect to its oversight of (1) the quality and integrity of the Company's financial statements, (2) compliance with legal and regulatory requirements, (3) independent auditor's qualifications and independence, and (4) the performance of its internal audit function and independent auditors. The Audit Committee is also responsible for the preparation of reports required to be included in the Company's annual proxy statement or other documents from time to time required with respect to the Audit Committee's functions. The Audit Committee met four times during 2007.

Compensation Committee. The Compensation Committee is composed of Mr. Elia and Mr. Meese. Mr. Elia serves as chairman of the Committee.

The Compensation Committee was established by the Company's Board of Directors for the purpose of assisting it in discharging its duties with respect to (1) the formulation, implementation, review and modification of the compensation of the Company's officers and directors and (2) the preparation of the annual report on executive compensation for inclusion in the Company's annual proxy statement, if required. The Compensation Committee's duties include, among other things, setting the compensation for officers and directors, making recommendations to the Board of Directors with respect to incentive compensation plans and equity-based compensation plans, approving grants of stock options and other awards under the Company's 2004 Equity Compensation Plan, and administering the Company's defined benefit and defined contribution plans, if any.

In fulfilling its responsibilities, the Compensation Committee is entitled to delegate any or all of its responsibilities to a subcommittee of the Compensation Committee, to the extent consistent with applicable law, the Company's certificate of incorporation, bylaws, corporate governance guidelines, and rules of any exchange or market on which the securities of the Company are then traded if compliance with such rules are required to begin or continue trading.

As part of its review and establishment of the performance criteria and compensation of officers and directors of the Company, the Compensation Committee must separately meet at least annually with the Company's Chief Executive Officer, the principal human resources executive and compliance officer, and with any other corporate officers as the Compensation Committee deems appropriate. However, the Compensation Committee must also meet regularly without such officers present, and in all cases such officers must not be present at the meetings at which their performance and compensation is being discussed and determined. The Compensation Committee must consult with the Chief Executive Officer regarding compensation of the other officers of the Company. The Compensation Committee has not engaged any compensation consultant to determine or recommend the amount or form of executive and director compensation. The Compensation Committee met five times during 2007.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is composed of Mr. Meese and Mr. Zoreff. Mr. Zoreff serves as chairman of the Committee.

The Corporate Governance and Nominating Committee was established by the Board of Directors for the purpose of assisting it in discharging its duties with respect to (1) the identification of individuals qualified to become directors and the selection or recommendation of candidates for directorships to be filled by the Board of Directors or the stockholders, and (2) the development, maintenance and recommendation of a set of corporate governance principles applicable to the Company, and the periodic review of such principles. The Corporate Governance and Nominating Committee met four times during 2007.

Section 16(a) Beneficial Ownership Reporting Compliance

The members of the Company's Board of Directors, its executive officers, and persons who hold more than 10% of its outstanding common stock are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which requires them to file reports with respect to their ownership of the

Company's common stock and their transactions in such common stock. Based upon the Company's review of the Section 16(a) reports in its records for fiscal 2007 transactions in the Company's common stock and their common stock holdings, the Company believes that, except as noted below, all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by its directors, executive officers, and greater than 10% beneficial owners.

The following reports were filed late on behalf of Atlas Capital SA due to administrative error by the Company:

- A Form 4 filed on June 15, 2007 reporting a purchase of the Company's common stock on June 7, 2007 and a Form 4/A filed on June 15, 2007 reporting a purchase of the Company's common stock on June 8, 2007.
- A Form 4 filed on July 3, 2007 reporting a purchase of the Company's common stock on June 27, 2007 and a purchase of the Company's common stock on June 28, 2007.
- A Form 4 filed on September 17, 2007 reporting a purchase of the Company's common stock on September 12, 2007.
- A Form 4 filed on December 6, 2007 reporting four purchases of the Company's common stock on November 21, 2007 and two purchases of the Company's common stock on November 29, 2007.

The following reports were filed late on behalf of Doron Roethler due to administrative error by the Company:

- A Form 4 filed on January 24, 2007 reporting a purchase of the Company's common stock on October 10, 2006.
- A Form 4 filed on September 17, 2007 reporting two purchases by Crystal Management, Ltd., which is wholly-owned by Mr. Roethler, on September 12, 2007.
- A Form 4 filed on December 4, 2007 reporting a restricted stock award granted to Mr. Roethler on November 28, 2007.

The following reports were filed late on behalf of C. James Meese, Jr. due to administrative error by the Company:

- A Form 3 filed on January 18, 2007 reporting Mr. Meese's ownership of the Company's common stock as of the date of his appointment to the Board of Directors on November 17, 2006.
- A Form 4 filed on April 18, 2007 reporting an option award granted to Mr. Meese on April 11, 2007.

The following reports were filed late on behalf of Philippe Pouponnot due to administrative error by the Company:

- A Form 3 filed on January 24, 2007 reporting Mr. Pouponnot's ownership of the Company's common stock as of the date of his appointment to the Board of Directors on November 17, 2006.
- A Form 4 filed on June 22, 2007 reporting the acquisition of shares of the Company's common stock on January 19, 2007 as payment of a penalty for late registration of other shares purchased from the Company.

The following reports were filed late on behalf of Brian Patrick Donaghy due to administrative error by the Company:

- A Form 3 filed on February 14, 2007 reporting Mr. Donaghy's ownership of the Company's common stock as of the date he was determined to be an executive officer on January 30, 2007.
- A Form 4 filed on September 10, 2007 reporting a sale of the Company's common stock on each of August 21, 2007, August 22, 2007, and August 24, 2007, and a gift of common stock on September 5, 2007.

The following additional Form 3 reports were filed late on behalf of the following individuals due to administrative error by the Company:

- A Form 3 filed on January 29, 2007 reporting Shlomo Elia's ownership of the Company's common stock as of the date of his appointment to the Board of Directors on November 17, 2006.
- A Form 3 filed on February 14, 2007 reporting Mike N. Stuart's ownership of the Company's common stock as of the date he was determined to be an executive officer on January 30, 2007.
- A Form 3 filed on June 14, 2007 reporting David E. Colburn's ownership of the Company's common stock as of the date of his appointment to the Board of Directors on May 31, 2007.

The following additional Form 4 reports were filed late on behalf of the following individuals due to administrative error by the Company:

- A Form 4 filed on January 23, 2007 reporting two sales of the Company's common stock by Dennis Michael Nouri on October 10, 2006.
- A Form 4 filed on April 23, 2007 reporting a restricted stock award granted to Nicholas A. Sinigaglia on April 18, 2007.
- A Form 4 filed on August 21, 2007 reporting a restricted stock award granted to Joseph Francis Trepanier on August 15, 2007.

Certain Relationships and Related Transactions

Non-Compete Payments Made to Former Chief Operating Officer of Smart Commerce. In October 2005, the Company purchased all of the stock of iMart Incorporated ("iMart"). One of the Company's former executive officers, Gary Mahieu, was a founder and shareholder of iMart, and was its principal executive officer. Following the purchase of iMart's stock, Mr. Mahieu entered into an employment agreement with Smart Commerce, Inc. ("Smart Commerce"), the Company's wholly-owned subsidiary. Under the terms of that agreement, the Company agreed to make non-competition payments to Mr. Mahieu of an aggregate of $510,000 to be made in eight equal quarterly installments of $63,750 through October 1, 2007. In connection with obtaining a loan from Fifth Third Bank, the payment schedule was modified to require all outstanding non-compete payments to be made by February 2007. This amount was paid in full on February 7, 2007, and no additional non-compete payments are owed to Mr. Mahieu.

Loans Made by Certain Parties to the Former Chief Executive Officer. During 2005, the following loans were made by certain investors, consultants, and/or stockholders to Michael Nouri, the Company's then serving Chief Executive Officer: (i) $809,736.49 was borrowed from Leon Sokolic, one of the Company's stockholders, (ii) $77,971.20 was borrowed from Atlas Capital SA, one of the Company's stockholders, (iii) $80,000 was borrowed from Pete Coker, a principal of Tryon Capital, which provided financial consulting services to the Company and received a warrant and cash fees, and (iv) $296,589 was borrowed from Berkley Financial Services, Ltd. ("Berkley"), which received compensation for services rendered to the Company for investment banking and investor relations services, including during the period in which Berkley was making loans to Mr. Nouri (collectively, the "Lenders"). Under Section 402 of the Sarbanes-Oxley Act of 2002, the Company is prohibited from making personal loans to its directors and executive officers, directly and indirectly. The Company believes that the loans to Mr. Nouri described above are not personal loans made directly or indirectly by it to the Chief Executive Officer.

On January 19, 2007, Mr. Nouri entered into note cancellation agreements with each of the Lenders. Under the terms of these note cancellation agreements, Mr. Nouri transferred his personally held shares of the Company's common stock to the Lenders as consideration for the cancellation of promissory notes held by the Lenders. Under these agreements, Mr. Nouri transferred a total of 521,699 shares of common stock for the cancellation of principal and interest totaling $1,306,178.66 as of December 31, 2006. The agreed upon per share value ranged from $1.50 to $4.22 per share.

In connection with the note cancellation agreements, the Company entered into registration rights agreements with each of the Lenders described in the preceding paragraphs. Under the terms of these registration rights agreements, each Lender was required to be given notice when the Company filed a registration statement under the Securities Act of 1933, as amended (the "Securities Act"). Each Lender was then permitted to include its shares received in such registration statement. Under the registration rights agreements, parties electing to include such shares in the registration were to bear their proportionate share of the registration expenses. The Company has satisfied its obligations under these registration rights agreements.

Private Placement of Common Stock to a Certain Director. In a transaction that closed on August 21, 2006, Mr. Pouponnot purchased 50,000 shares of the Company's common stock in a private placement transaction. The private placement shares were sold at $2.50 per share pursuant to subscription agreements between Mr. Pouponnot and the Company. The Company entered into a subscriber rights agreement with Mr. Pouponnot whereby it was obligated to register these shares for resale by the purchaser by filing a registration statement on or before September 30, 2006. If a registration statement was not filed by that date, the Company was obligated to pay a penalty obtained by multiplying the total purchase price for the shares by 0.5% by the number of prorated 30-day periods after the target registration date. At the Company's sole discretion, this penalty could be paid in the number of shares obtained by dividing the total penalty amount by the per share purchase price. The Company filed a registration statement for these shares on April 3, 2007. In January 2007, the Company entered into an amendment to the registration rights agreement with Mr. Pouponnot. Under this amendment, the penalty for late registration was set at a fixed amount. The Company subsequently issued Mr. Pouponnot 750 shares of its common stock as payment for this late registration penalty with an aggregate value of $2,100 based upon a closing price per share of $2.80 on the OTC Bulletin Board on the date of issuance. The Company has satisfied its obligations under the subscriber rights agreement.

Mr. Pouponnot also entered into a dribble out agreement with the Company pursuant to which he was permitted to sell up to 25% of these shares during any rolling 30-day period following the effective date of the registration statement. This agreement has expired. At the time of the sale to Mr. Pouponnot, he had not been appointed a member of the Company's Board of Directors.

Private Placement of Common Stock to a Certain Affiliate by Former Chief Executive Officer. On October 10, 2006, Michael Nouri, the Company's then serving Chief Executive Officer, entered into a stock purchase agreement with Doron Roethler, a stockholder who subsequently became the Company's Chairman of the Board in November 2007. Pursuant to this agreement, Mr. Nouri sold 247,043 shares of the Company's common stock from his personal holdings at a price of $1.5176 per share. The Company entered into a registration rights agreement with Mr. Roethler in connection with this transaction under which it had an obligation to register the shares sold by Mr. Nouri to Mr. Roethler on the first registration statement filed by the Company following the sale, with Mr. Roethler bearing his proportionate share of the registration expenses. Under the terms of this agreement, the shares were delivered following the Company's execution of such registration rights agreement, which occurred on January 19, 2007. The Company filed a registration statement for these shares on April 3, 2007 and has satisfied its obligations under the registration rights agreement.

Sale of Convertible Notes to Certain Affiliates. On November 14, 2007, in an initial closing, the Company sold $3.3 million aggregate principal amount of secured subordinated convertible notes due November 14, 2010 to certain existing stockholders. These stockholders (referred to in this discussion as the "noteholders") and the amount of notes they purchased in the initial closing are as follows: (i) The Blueline Fund, which originally recommended Philippe Pouponnot, one of the Company's directors, for appointment to the Company's Board of Directors - $500,000; (ii) Atlas Capital SA, which originally recommended Shlomo Elia, another one of the Company's directors, for appointment to the Board of Directors - $2,050,000; (iii) Crystal Management Ltd., which is owned by Doron Roethler, a stockholder who subsequently became Chairman of the Company's Board of Directors - $500,000; and (iv) William Furr, who is the father of Thomas Furr, one of the Company's directors and executive officers - $250,000. The noteholders also have committed to purchase on a pro rata basis up to $5.2 million aggregate principal of secured subordinated notes upon approval and call by the Company's Board of Directors in future closings. The Company is obligated to pay interest on the notes at an annualized rate of 8% payable in quarterly installments commencing on February 14, 2008. As of April 21, 2008, the Company has paid $65,267 in interest on the notes. The Company does not have the ability to prepay the notes without approval of at least a majority of the principal amount of the notes then outstanding.

On the earlier of the maturity date of November 14, 2010 or a merger, acquisition, sale of all or substantially all of the Company's assets or capital stock, or similar transaction, each noteholder in its sole discretion shall have the option to (i) convert the principal then outstanding on its note into shares of the Company's common stock, or (ii) demand immediate repayment in cash of the note, including any accrued and unpaid interest. If a noteholder elects to convert its note under these circumstances, the conversion price for notes issued in the initial closing on November 14, 2007 shall be $3.05 and the conversion price for notes issued in any additional closings shall be the lesser of a 20% premium above the average of the closing bid and asked prices of shares of the Company's common stock quoted in the Over-The-Counter Market Summary (or, if the Company's shares are traded on the Nasdaq Stock Market or another exchange, the closing price of shares of the Company's common stock quoted on such exchange) averaged over five trading days prior to the respective additional closing date.

Upon certain events of default and at any time during the continuance of such an event of default, the noteholders have the right, with the consent of the agent appointed for such noteholders, to accelerate payment on their notes. Payment of the notes will be automatically accelerated if the Company enters voluntary or involuntary bankruptcy or insolvency proceedings.

If notes are converted into the Company's common stock and a demand for registration of the shares of common stock is made by a holder of a majority of the converted common stock, the Company has agreed, subject to certain limitations, to use its best efforts to file a registration statement with the SEC within a prescribed time period. In addition, if the Company proposes to file a registration statement to register any of its common stock under the Securities Act in connection with the public offering of such securities solely for cash, subject to certain limitations, the Company shall give each noteholder who has converted its notes into common stock the opportunity to include such shares of converted common stock in the registration. The Company has agreed to bear the expenses for any of these registrations, exclusive of any stock transfer taxes, underwriting discounts, and commissions.

The noteholders have designated Doron Roethler as bond representative to act as their agent. So long as the notes are outstanding, the Company has agreed that it will not take certain actions without approval of the bond representative.

Settlement Agreement with Former Executive Officer. On January 23, 2008, the Company and Henry Nouri entered a settlement agreement and release to settle a legal action brought by Mr. Nouri against the Company relating to Mr. Nouri's termination from his position as Executive Vice President of the Company in September 2007. The agreement provided for a release of claims by both parties, a payment to Mr. Nouri of $100,000 (less applicable withholding taxes) and Mr. Nouri's former Company vehicle valued at $12,500, the acceleration of the expiration date of certain of Mr. Nouri's options to purchase the Company's common stock, and the dismissal with prejudice of Mr. Nouri's action against the Company. Mr. Nouri remains subject to the non-competition, non-disclosure, and non-solicitation obligations in his employment agreement, dated April 1, 2004, with the Company.

EXECUTIVE COMPENSATION

Summary of Cash and Certain Other Compensation

The following table shows the annual and long-term compensation for the fiscal years indicated, of the two individuals who served as the Company's Chief Executive Officer during 2007 and the next two most highly compensated executive officers serving at the end of fiscal 2007. The persons identified in the table below are referred to as the Company's "named executive officers."

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Stock Awards	Option awards	Total ($)

			($) (1)	($) (1)	
David E. Colburn (2)	2007	$85,962 (3)	$70,500 (4)	—	$156,462
President and Chief Executive Officer					
Dennis Michael Nouri (5)	2007	$103,923	—	$30,977	$134,900
Former President and Chief Executive Officer	2006	$ 170,000	—	$46,461	$216,461

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Nicholas A. Sinigaglia (6) Former Chief Financial Officer	2007	$135,275	$49,000	$22,930	$207,205
	2006	$ 108,333	—	$17,197	$125,530
Anil Kamath (7) Former Chief Technology Officer	2007	$129,317	—	$23,230	$152,547

(1) Amounts do not reflect compensation actually received by the named executive officer. Instead, the amounts represent the amount of compensation cost recognized in fiscal 2007 in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), disregarding any adjustments for forfeiture assumptions. For a discussion of the assumptions used to value these awards, see Note 2 to the Company’s consolidated financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

(2) Mr. Colburn was appointed as an independent member of the Company’s Board of Directors on May 31, 2007. On September 11, 2007, he was appointed to serve as the Company’s Interim President and Chief Executive Officer and was later appointed as the Company’s President and Chief Executive Officer effective December 12, 2007. Mr. Colburn also served as the Company’s Chairman of the Board of Directors from October 19, 2007 to November 27, 2007, but he did not receive any compensation for such service.

(3) Includes $6,000 in cash fees paid to Mr. Colburn for his service as a director prior to being appointed as the Company’s Interim President and Chief Executive Officer.

(4) Represents a restricted stock award granted to Mr. Colburn as compensation for service as a director prior to being appointed as the Company’s Interim President and Chief Executive Officer.

(5) Mr. Nouri ceased to be the Company’s President and Chief Executive Officer on September 11, 2007.

(6) Mr. Sinigaglia resigned from the Company, effective March 30, 2008.

(7) Mr. Kamath was not a “named executive officer” during fiscal 2006, and thus his compensation information for fiscal 2006 is not provided. Mr. Kamath resigned from the Company, effective March 31, 2008.

Employment Agreements

The Company has the following employment agreements with its named executive officers. See “Potential Payments upon Termination or Change in Control” below for additional material terms of these agreements.

David E. Colburn. Effective December 12, 2007, covering employment commencing on such date, the Company entered into an employment agreement with Mr. Colburn which provided for an initial base salary of $180,000. The term of the agreement is one year commencing on the effective date, and the term is subject to automatic renewal for successive one-year terms unless, at least 30 days prior to the renewal date, either party gives the other written notice of its intent not to continue the employment relationship. The agreement requires the Company to make a severance payment to Mr. Colburn if the Company terminates Mr. Colburn’s employment without “Cause” or if, within 18 months following a “Change in Control,” the Company terminates Mr. Colburn’s employment without “Cause” or by notice of non-renewal, or Mr. Colburn terminates his employment for “Good Cause” (all as described under “Potential Payments upon Termination or Change in Control”). Mr. Colburn’s agreement contains non-competition and non-solicitation provisions. The non-competition provision prohibits him from competing with the Company in the same or similar business in any jurisdiction where it does business for a period of one year following the termination of employment

for any reason. The non-solicitation provision prohibits the direct or indirect solicitation (a) of any of the Company's customers to purchase similar products or services from others, (b) to take away the customers' business from the Company, or (c) to induce employees to leave their employment with the Company, for a period of one year following the termination of employment for any reason. The agreement was accompanied by an award of 100,000 shares of restricted stock of the Company, restrictions of which lapse as to 25,000 shares on January 1, 2008, 37,500 shares on January 1, 2010, 18,750 shares on January 1, 2011, and 18,750 shares on January 1, 2012. In the event that Mr. Colburn's employment is terminated within 18 months following a "Change in Control" either by the Company without "Cause" or by notice of non-renewal, or by Mr. Colburn for "Good Cause," all of the restrictions on his shares of restricted stock in the Company will immediately lapse.

Dennis Michael Nouri. Effective April 1, 2004, covering employment commencing as of June 1, 2004, the Company entered into an employment agreement, which provided for an initial base salary of $170,000. The agreement replaced an employment agreement dated July 14, 1999. The agreement had a termination date of December 31, 2005, but it automatically extended for additional two-year terms, unless either party provided the other with written notice of intention not to renew at least 180 days prior to the end of the term or the end of any renewal period. Since neither party gave written notice of termination, the agreement was extended for an additional two years and thus had a termination date of December 31, 2007. Mr. Nouri, however, resigned from his employment with the Company on September 11, 2007. The agreement required the Company to make a severance payment to Mr. Nouri if either the Company terminated Mr. Nouri' s employment without cause or Mr. Nouri terminated his employment for "Good Reason," because of death or disability, or following a change in control. The Company was not required to make any severance payments to Mr. Nouri in connection with his resignation. Mr. Nouri's agreement contains non-competition and non-solicitation provisions. The non-competition provision prohibits him from directly or indirectly engaging in the same or similar business as the Company's in jurisdictions where it does business for a period of one year following the termination of employment for any reason. The non-solicitation provision prohibits the direct or indirect solicitation (a) of any of the Company's customers to purchase similar products or services from others, (b) to take away the customers' business from the Company, or (c) to induce employees to leave their employment with the Company, for a period of one year following the termination of employment for any reason.

In addition to Mr. Nouri's employment agreement, the Company also entered into an indemnification agreement with Mr. Nouri on April 14, 2006. This indemnification agreement provides that Mr. Nouri will be indemnified, to the fullest extent permitted under the Company's bylaws and Delaware law, for his expenses incurred in connection with the SEC investigation involving the Company. Mr. Nouri agreed to repay these amounts to the Company should it ultimately be determined that such indemnification was not permissible.

Nicholas A. Sinigaglia. Effective March 21, 2006, covering employment commencing on such date, the Company entered into an employment agreement with Mr. Sinigaglia which provided for an initial annual base salary of $90,000, which was increased according to the following schedule: to $110,000 effective April 1, 2006, to $120,000 effective June 1, 2006, and to $135,000 effective September 1, 2006. The agreement had a termination date of March 31, 2007, but it was to automatically extend for additional one-year terms, unless either party provided the other with written notice of intention not to renew at least 30 days prior to the end of the term or of any renewal period. Because Mr. Sinigaglia provided notice of his desire to resign from the Company on February 1, 2008, Mr. Sinigaglia and the Company entered into an amendment of his employment agreement. Under the terms of the amended employment agreement, Mr. Sinigaglia remained with the Company until March 30, 2008 and received severance payments described below in "Potential Payments upon Termination or Change in Control." Mr. Sinigaglia's employment agreement contains non-competition and non-solicitation provisions. The non-competition provision prohibits him from the following in jurisdictions where the Company does business for a period of one year following the termination of employment for any reason: (a) being the owner of the outstanding capital stock of any corporation which conducts a business of a like or similar nature to the Company (other than stock of a corporation traded on a national securities exchange or automated quotation service), (b) being an officer or director of any corporation which conducts a business of a like or similar nature to the Company, (c) being a member of any partnership which conducts a business of a like or similar nature to the Company or (d) being a consultant to, an owner of or an employee of any other business which conducts a business of a like or similar nature to the Company. The non-solicitation provision prohibits the direct or indirect solicitation (a) of any of the Company's customers to either purchase similar products or services from others, (b) to take away the customers' business from the Company, or (c) to induce employees to leave their employment with the Company, for a period of one year following the termination of employment for any reason. Mr. Sinigaglia's employment agreement was accompanied by a grant of incentive stock options for 50,000 shares of common stock at an exercise price of $2.50 vesting over a five-year period in five equal installments, commencing one year from the date of the grant.

The Company and Mr. Sinigaglia were also parties to a restricted stock agreement dated April 18, 2007 pursuant to which Mr. Sinigaglia was granted 30,000 shares of restricted stock of the Company. As of the effective date of Mr. Sinigaglia's resignation, the restrictions had lapsed as to one-third of the shares as of April 18, 2007 and the remaining restrictions were scheduled to lapse in equal installments on April 18, 2008 and April 18, 2009. On February 1, 2008, the Company and Mr. Sinigaglia entered into an amendment to the restricted stock agreement to accelerate the restriction lapsing date of April 18, 2008 to March 30, 2008. As he did not continue as an employee of the Company after March 30, 2008, the 10,000 shares of restricted stock with a restriction lapsing date of April 18, 2009 have been forfeited by Mr. Sinigaglia.

Anil Kamath. Mr. Kamath did not have an employment agreement with the Company and resigned as of March 31, 2008. In connection with his resignation, Mr. Kamath entered into a Severance Agreement and General Release with the Company, effective March 31, 2008, under which he was entitled to severance payments described below in "Potential Payments upon Termination or Change in Control."

Outstanding Equity Awards

The following table provides information about outstanding equity awards held by the named executive officers as of December 31, 2007.

Outstanding Equity Awards at 2007 Fiscal Year-End

	Option awards				Stock awards	
Name	Number of securities underlying unexercised options (#) Exercisable	Number of securities underlying unexercised options (#) Unexercisable	Option exercise price ($/Sh)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested ($) (1)
David E. Colburn	—	—	—	—	5,000 (2)	$13,000
	—	—	—	—	100,000 (3)	$260,000
Dennis Michael Nouri	250,000 (4)	—	$1.43	12/31/2008		
Nicholas A. Sinigaglia	10,000 (5)	40,000	$2.50	03/24/2016	20,000 (6)	$52,000
Anil Kamath	75,000 (7)	—	$3.50	05/01/2014	—	—
	20,000 (8)	30,000	$8.61	7/22/2015	—	—

(1) Market value of shares that have not vested is based on $2.60 per share (the closing price of the Company's common stock as quoted on the OTC Bulletin Board on December 31, 2007).

(2) Restrictions lapse as to 2,500 shares on each of February 29, 2008 and May 31, 2008.

(3) Restrictions lapse as to 25,000 shares on January 1, 2008, 37,500 shares on January 1, 2010, 18,750 shares on January 1, 2011, and 18,750 shares on January 1, 2012.

(4) This option was fully vested on December 31, 2003, the date of the grant. On January 10, 2008, the Compensation Committee of the Company's Board of Directors cancelled this option.

(5) Vests as to 20% of the award on each anniversary of the grant date for five years following March 24, 2006, the date of the grant. Upon Mr. Sinigaglia's resignation on March 30, 2008, this option was forfeited as to 30,000 unvested shares and remains exercisable as to 20,000 vested shares for 90 days following Mr. Sinigaglia's termination of employment.

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(6) As of December 31, 2007, restrictions were scheduled to lapse as to 10,000 shares on each of April 18, 2008 and April 18, 2009. On February 1, 2008, in connection with Mr. Sinigaglia's resignation on March 30, 2008, the vesting schedule was amended to accelerate the restriction lapsing date of April 18, 2008 to March 30, 2008. The remaining 10,000 shares of restricted stock were forfeited.

(7) This option vested bi-annually over two years following May 1, 2004, the date of the grant. It will remain exercisable for 90 days following March 31, 2008, the date of Mr. Kamath's resignation.

(8) Vests as to 20% of the award on each anniversary of the grant date for five years following July 22, 2005, the date of the grant. Upon Mr. Kamath's resignation on March 31, 2008, this option was forfeited as to 30,000 unvested shares and remains exercisable as to 20,000 vested shares for 90 days following Mr. Kamath's termination of employment on March 31, 2008.

Payments upon Termination or Change in Control

Three of the Company's named executive officers are no longer employed by the Company. The Company was not required to make any severance payments to Mr. Nouri in connection with his resignation on September 11, 2007. The payments made to Mr. Kamath and Mr. Sinigaglia are described below.

In connection with his resignation from the Company, Mr. Kamath entered into a severance agreement and general release with the Company, effective March 31, 2008. Under the terms of the agreement, the Company agreed to pay Mr. Kamath an amount equal to three months of his salary and to reimburse Mr. Kamath for premium payments he makes under the Consolidated Budget Reconciliation Act ("COBRA") to continue his heath insurance coverage for three months. The agreement also includes a release of customary claims and provides for future payments for any consulting services requested by the Company. For requests relating to projects or technology existing at the Company as of March 31, 2008, Mr. Kamath has agreed to provide up to 10 hours of free consulting services per month until October 1, 2008, at which the Company will pay a rate of $75.00 per hour for such assistance. For any requests unrelated to projects or technology existing as of March 31, 2008, Mr. Kamath will be paid $75.00 per hour, provided that if such assistance is estimated to be beyond five hours per month, the Company and Mr. Kamath will enter into a written statement of work setting forth the terms and conditions governing such project.

In connection with his resignation from the Company, Mr. Sinigaglia and the Company agreed to an amendment of his employment agreement on February 1, 2008. Under the terms of the amended employment agreement, the Company agreed to pay Mr. Sinigaglia an amount equal to three months of his salary and agreed to reimburse Mr. Sinigaglia for premium payments he makes under COBRA to continue his heath insurance coverage for three months. In addition, the Company and Mr. Sinigaglia agreed to an amendment of his restricted stock agreement on February 1, 2008, which accelerated the restriction lapsing date of 10,000 shares of restricted stock to March 30, 2008, as more fully described above under "Employment Agreements."

The Company currently has an employment agreement with Mr. Colburn that contains terms that provide for the potential payment of amounts following termination. If Mr. Colburn's employment is terminated by the Company for "Cause" (as defined below), the Company's obligation to compensate Mr. Colburn will cease on the effective termination date except for (a) amounts due for services rendered prior to the termination date and (b) a lump sum representing any unused portion of Mr. Colburn's vacation. If Mr. Colburn is terminated by the Company by notice of non-renewal or without "Cause," the Company's obligation to compensate Mr. Colburn will cease on the effective termination date except for (x) amounts due for services rendered prior to the termination date, (y) a lump sum representing any unused portion of Mr. Colburn's vacation, and (z) an amount equal to Mr. Colburn's then current salary for the then remaining

term of the employment agreement, payable in substantially equal installments on the last business day of each applicable month.

For purposes of the agreement, “Cause” is defined to mean:

- any act or omission constituting misconduct or negligence, fraud, misappropriation, embezzlement, conflict of interest or competitive business activities, including without limitation any arrest on criminal charges;
- any chemical dependence which materially adversely affects the performance of his duties and responsibilities to the Company;
- breach of his fiduciary obligations to the Company in a material respect;
- his repeated failure to perform his duties after written notice of the alleged failure and a reasonable opportunity to cure;
- his material breach of the Company’s policies or any material provision of the agreement;
- his gross misconduct resulting in substantial loss to the Company or damage to the reputation of the Company; or
- his knowing material violation of securities laws, rules, or regulations.

If Mr. Colburn’s employment is terminated within 18 months following a “Change in Control” (as defined below) either by the Company without “Cause” or by notice of non-renewal, or by Mr. Colburn for “Good Cause” (as defined below), he would receive the benefits to which he would have been entitled upon a termination by the Company without “Cause” or by notice of non-renewal prior to a “Change in Control” and, in addition, all of the restrictions on his shares of restricted stock in the Company shall immediately lapse.

A “Change of Control” will be deemed to have occurred on the earlier of the following dates:

- the date on which any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than (a) the Company, (b) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (c) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (d) the existing holders of capital stock of the Company as of the effective date of the agreement, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s then outstanding securities; or
- the date the stockholders of the Company approve a definitive agreement or plan for (a) a merger, share exchange, consolidation, or reorganization involving the Company and any other corporation or other entity as a result of which less than 50% of the combined voting power of the Company or of the surviving or resulting corporation or entity after such transaction is held in the aggregate by the holders of the combined voting power of the outstanding securities of the Company immediately prior to such transaction; or (b) a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets.

“Good Cause” shall mean Mr. Colburn’s resignation within six months of any of the following conditions having arisen without his consent and after having given the Company written notice of the existence of such condition within 60 days of the initial existence of the condition and providing the Company with 30 days to remedy the condition:

- a material diminution in his authority or responsibilities;
- a material diminution in his base salary;

- relocation of his office to a location more than 30 miles outside of Research Triangle Park, North Carolina; or
- any material breach of the employment agreement by the Company.

Compensation of Directors

The following table summarizes the compensation paid to non-employee directors for the fiscal year ended December 31, 2007:

2007 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1) (2)	Option Awards ($) (1) (3)	All Other Compensation ($)	Total ($)
Doron Roethler (4)	—	$2,875	—	—	$2,875
Jeffrey W. LeRose (5)	$40,000	$53,250	$4,039	$17,750 (6)	$115,039
Shlomo Elia (7)	—	$11,400	—	—	$11,400
Philippe Pouponnot (7)	—	$11,400	—	—	$11,400
C. James Meese, Jr. (8)	$39,500	$11,400	$23,410	—	$74,310
Thomas P. Furr (9)	—	—	—	—	—

(1) Amounts represent the amount of compensation cost recognized in fiscal 2007 in accordance with SFAS 123R, disregarding any adjustments for forfeiture assumptions. For a discussion of the assumptions used to value these awards, see Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

(2) At December 31, 2007, the aggregate number of restricted stock awards held by each non-employee director was as follows: Mr. Roethler – 15,000; Mr. Elia – 7,500; Mr. Pouponnot – 7,500; and Mr. Meese – 7,500.

(3) At December 31, 2007, the aggregate number of stock option awards held by each non-employee director was as follows: Mr. LeRose – 10,000; and Mr. Meese – 20,000.

(4) Although Mr. Roethler qualifies for payment of a monthly cash fee under the Company's Board Compensation Policy, as of the end of the Company's last fiscal year, he has waived receipt of cash compensation for his service on the Board of Directors.

(5) On October 18, 2007, Mr. LeRose resigned as Chairman of the Board. In recognition of Mr. LeRose's service to the Company, the Board of Directors amended Mr. LeRose's existing restricted stock agreement to permit restrictions to continue lapsing on his restricted stock through December 21, 2007 and approved the continued payment of his monthly board fee through June 2008, which represents the end of his annual elected term had he served his full term.

(6) Includes monthly board fees totaling $8,000 paid to Mr. LeRose between the date of his resignation and December 31, 2007 and $9,750 of compensation cost recognized in accordance with SFAS 123R for the portion of Mr. LeRose's restricted stock award as to which restrictions lapsed after Mr. LeRose's resignation.

(7) Although these directors qualify for payment under the Company's Board Compensation Policy, as of the end of the Company's last fiscal year, they have waived the receipt of any compensation.

(8) In February 2007, the Company's Board of Directors amended the Company's Board Compensation Policy. This amendment resulted in a retroactive increase in cash compensation from $2,000 per month to $2,500 per month for Mr. Meese. This increase was made to reflect his additional duties as Chairman of the Company's Audit Committee. Additional amounts payable as a result of this retroactive increase were paid in February 2007. In addition, Mr. Meese received payments totaling $8,500 for his service on a special committee of the Board of Directors during fiscal 2007.

(9) Mr. Furr is an executive officer of the Company and, therefore, is not eligible to receive compensation for his service as a director.

During 2007, the Company had in place a written compensation policy covering compensation to its directors. Under this policy, directors who also served as employees were not eligible to receive any compensation.

Under the policy in effect on and after February 2, 2007, a non-management member of the Company's Board is entitled to a fee of $1,500 per month, plus $250 per month for each committee on which the member serves. If the director serves as the Chairman of the Audit Committee, the $1,500 is increased to $2,000, but the director does not receive the $250 fee per month for serving on the Audit Committee. The Chairman of the Board is entitled to a fee of $4,000 per month in lieu of the fees described above. In addition, each director is entitled to receive an award of restricted stock.

Upon a director's appointment or election to the Board, the director will be awarded 10,000 shares (15,000 shares for the Chairman of the Board) of restricted common stock of the Company, valued at the fair market value of the Company's common stock on the date of the award. In addition, at the time of the annual meeting of the Company's stockholders, if the director is re-elected to the Board and has been serving on the Board for at least six months prior to the date of the annual meeting, the director will be awarded additional shares of restricted common stock of the Company, valued at the fair market value of the Company's common stock on the date of the award. The contractual restrictions on all restricted stock awards granted lapse quarterly over a year's time, provided that the person is a member of the Board of Directors on the applicable lapse date.

In June 2007, the Company limited the issuance of shares of its common stock reserved under its 2004 Equity Compensation Plan to awards of restricted or unrestricted stock. Prior to that time, upon appointment or election to the Board, a director could elect to receive a stock option grant representing 20,000 shares (30,000 shares for the Chairman of the Board) of the Company's common stock instead of a restricted stock award. The exercise price of the option grant would be equal to the fair market value of the Company's common stock on the date of grant. At the time of the annual meeting of the Company's stockholders, a director who is re-elected and has served on the Board for at least six months prior to the date of the annual meeting would have received an additional stock option grant with an exercise price equal to the fair market value of the Company's common stock on the date of grant. All options would vest quarterly over a year's time or on the one year anniversary of the award, provided that the director was serving on the Board of Directors on the applicable vesting date.

Each non-management director is eligible for expense reimbursement for reasonable travel and lodging expenses incurred in connection with his or her attendance at Board and committee meetings.

Under the policy in effect from November 17, 2006 to February 2, 2007, a non-management member of the Company's Board was not entitled to receive a monthly fee for committee membership and all stock options vested quarterly over a year's time. All other terms of the policy were identical to those of the policy that was effective on and subsequent to February 2, 2007.

Equity Compensation Plans

The following table provides information, as of December 31, 2007, for the Company's compensation plans (including individual compensation arrangements) under which the Company is authorized to issue equity securities:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1) (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1) (c)
Equity compensation plans approved by security holders	1,394,300 (2)	$5.06	3,869,091 (3)
Equity compensation plans not approved by security holders	250,000 (4)	$9.82	N/A
Total	1,644,300		3,869,091

(1) Refers to shares of the Company's common stock.

(2) Includes shares issuable upon exercise of outstanding options under the following plans in the amounts indicated: 2004 Equity Compensation Plan – 818,700; 2001 Equity Compensation Plan – 575,000; and 1998 Stock Option Plan – 600.

(3) Includes 3,869,091 shares remaining for future issuance under the 2004 Equity Compensation Plan, all of which are available for issuance as restricted shares. No shares remain available for grants under either the 2001 Equity Compensation Plan or the 1998 Stock Option Plan.

(4) Includes 250,000 shares issuable pursuant to an option granted to a consultant pursuant to an individual compensation arrangement not under any equity compensation plan. The exercise price under this option grant is $9.815 per share, with the shares vesting in equal installments on December 13, 2005, March 13, 2006, June 13, 2006, September 13, 2006, and December 13, 2006. The option has a termination date of March 8, 2008.

OWNERSHIP OF SECURITIES

Principal Stockholders and Share Ownership by Management

The following table sets forth information regarding beneficial ownership of the Company's common stock as of April 21, 2008 by (i) each person who is known by the Company to beneficially own more than 5% of its common stock; (ii) each person named in the Summary Compensation Table in this proxy statement, (iii) each person serving as a director or nominated for election as a director, and (iv) all current executive officers and directors as a group. Except as otherwise indicated by footnote, to the Company's knowledge, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Beneficial Owner Name and Address (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
Atlas Capital SA 118 Rue du Rhone CH-1204 Geneva, Switzerland	3,865,927	21.2%
Doron Roethler (3) c/o Michal Raviv at Granot, Strauss, Adar & Co. 28 Bezalel Street Ramat Gan 52521, Israel	2,187,253	12.0%
Magnetar Financial LLC (4) Magnetar Capital Partners LP Supernova Management LLC Alec N. Litowitz 1603 Orrington Avenue, 13th Floor Evanston, IL 60201	1,858,030	10.2%
Henry Nouri (5) 106 Zapata Lane Chapel Hill, NC 27517	1,429,522	7.8%
Herald Investment Trust, PLC c/o Hare & Co. (6) 1 Wall Street New York, NY 10286	1,176,471	6.5%
Michael Nouri (7) 4024 John S. Raboteau Wynd Raleigh, NC 27612	745,907	4.1%
David E. Colburn (8)	110,000	*
Nicholas A. Sinigaglia (9)	40,000	*
Anil Kamath (10)	294,100	1.6%
Thomas Furr (11)	429,937	2.4%
Shlomo Elia (12)	70,972	*
C. James Meese, Jr. (13)	30,000	*
Dror Zoreff (14)	10,000	*
Philippe Pouponnot (15)	60,750	*
All officers and directors as a group (9 persons) (16)	2,933,712	16.1%

* Less than 1%.

(1) Unless otherwise noted, all addresses are in care of the Company at 2530 Meridian Parkway, Durham, North Carolina 27713.

(2) Based upon 18,234,627 shares of common stock outstanding on April 21, 2008. The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the person has sole or

shared voting power or investment power and also any shares that the person has the right to acquire within 60 days of April 21, 2008 through the exercise of any stock options or other rights. Any shares that a person has the right to acquire within 60 days are deemed to be outstanding for the purpose of computing the percentage ownership of such person but are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes (i) 1,323,619 shares owned by Greenleaf Ventures Ltd., a British Virgin Islands company, (ii) 121,116 shares owned by Crystal Management Ltd., a company registered in Anguilla, and (iii) 557,043 shares of common stock owned directly by Doron Roethler, of which 11,250 shares are held pursuant to a restricted stock award as to which restrictions had not lapsed as of April 21, 2008.

(4) Based on a joint Schedule 13G filed with the SEC by Magnetar Financial LLC ("Magnetar Financial"), Magnetar Capital Partners LP ("Magnetar Capital Partners"), Supernova Management LLC ("Supernova"), and Alec N. Litowitz on February 13, 2008 to report securities held for the account of Magnetar Capital Master Fund, Ltd ("Magnetar Capital Master Fund") and certain Managed Accounts (the "Managed Accounts") as of December 31, 2007. Magnetar Capital Partners serves as the sole member and parent holding company of Magnetar Financial and Magnetar Investment Management, LLC ("Magnetar Investment Management"), both of which are registered investment advisers under the Investment Advisers Act of 1940, as amended. Magnetar Financial serves as investment adviser to Magnetar Capital Master Fund, and Magnetar Investment Management serves as investment adviser to the Managed Accounts. Supernova is the general partner of Magnetar Capital Partners, and Mr. Litowitz is the manager of Supernova. As of December 31, 2007, each of Magnetar Financial, Magnetar Capital Partners, Supernova, and Mr. Litowitz had shared voting and dispositive power over (a) 842,747 shares held for the account of Magnetar Capital Master Fund and (b) 588,903 shares issuable upon the exercise of warrants held for Magnetar Capital Master Fund. These amounts exclude additional warrants to purchase 195,411 shares held for the account of Magnetar Capital Master Fund which are subject to provisions prohibiting the holder from exercising the warrants to the extent such exercise would result in the holder being deemed the beneficial owner of more than 9.99% of the Company's issued and outstanding common stock. As of December 31, 2007, Magnetar Capital Partners, Supernova, and Mr. Litowitz also had shared voting and dispositive power over 426,380 shares held for the accounts of the Managed Accounts.

(5) Includes 180,070 shares which can be acquired upon the exercise of options which can be exercised at any time between April 21, 2008 and June 13, 2008.

(6) Includes a warrant to purchase up to 392,157 shares of common stock which can be exercised within 60 days after April 21, 2008.

(7) Includes 6,500 shares of common stock owned by Michael Nouri in trust as to which he shares investment and voting power.

(8) Includes 77,500 shares held pursuant to a restricted stock award as to which restrictions had not lapsed as of April 21, 2008.

(9) Includes 20,000 shares which can be acquired upon the exercise of options which can be exercised at any time within 60 days after April 21, 2008.

(10) Includes 95,000 shares which can be acquired upon the exercise of options which can be exercised at any time within 60 days after April 21, 2008.

		3,876
Investment in unconsolidated affiliates	(11,444)	(626)
Distributions from unconsolidated affiliates, return of capital	16,728	1,329
Restricted cash	—	6,475
Net cash used in investing activities	(138,802)	(61,297)
Cash flows from financing activities		
Proceeds from issuance of common units to public, net of offering costs	3,004	(348)
Unitholder contributions	1,791	330
Unitholder distributions	(29,964)	(24,364)
Issuance of Series A Units, net of issuance costs	—	45,000
Acquisition of noncontrolling interests	1,831	—
Net contributions from (distributions to) noncontrolling interests	149	(70)
LTIP tax netting unit repurchase	(150)	(725)

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Deferred financing costs	(1,475)	(276)
Payments on other debt	(1,607)	(2,171)
Payments on long-term debt	(64,900)	(123,650)
Borrowings on long-term debt	212,200	137,800
Net cash provided by financing activities	120,879	31,526
Net increase (decrease) in cash and cash equivalents	754	(151)
Cash and cash equivalents		
Beginning of period	—	499
End of period	$754	$348
Supplemental cash flow information		
Interest payments, net	$12,603	$5,572
Supplemental non-cash information		
(Decrease) increase in accrued property, plant and equipment	$3,221	$(16,897)
Issuance of Series C Units and Warrant in connection with the Emerald Transactions	120,000	—
Accrued and paid-in-kind unitholder distribution for Series A Units	9,073	7,607
Accrued and paid-in-kind unitholder distribution for Series C Units	2,249	—
Paid-in-kind unitholder distribution for Series B Units	—	833
Cancellation of escrow units	6,817	—
Accrued distribution from unconsolidated affiliate	4,360	—

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

General

American Midstream Partners, LP (the "Partnership", "we", "us", or "our") was formed on August 20, 2009 as a Delaware limited partnership for the purpose of owning, operating, developing and acquiring a diversified portfolio of midstream energy assets. The Partnership's general partner, American Midstream GP, LLC (the "General Partner"), is 95% owned by High Point Infrastructure Partners, LLC ("HPIP") and 5% owned by AIM Midstream Holdings, LLC. We hold our assets primarily in a number of limited liability companies, two limited partnerships and a corporation. Our capital accounts consist of notional general partner units and limited partner interests.

Nature of Business

We are engaged in the business of gathering, treating, processing and transporting natural gas; gathering, transporting, storing, treating and fractionating NGLs; gathering, storing and transporting crude oil and condensates; and storing specialty chemical products, all through our ownership and operation of 13 gathering systems, five processing facilities, three fractionation facilities, three interstate pipelines, five intrastate pipelines, three marine terminal sites and one crude oil pipeline. Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Mississippi, North Dakota, Tennessee, Texas and the Gulf of Mexico, provide critical infrastructure that links producers of natural gas, crude oil, NGLs, condensate and specialty chemicals to numerous intermediate and end-use markets. We currently operate more than 3,000 miles of pipelines that gather and transport over 1 Bcf/d of natural gas and operate approximately 2.2 million barrels of storage capacity across three marine terminal sites.

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. The year-end balance sheet data was derived from consolidated audited financial statements but does not include disclosures required by GAAP for annual periods. The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of financial position and results of operations for the respective interim periods.

Our financial results for the three and six months ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the "SEC") on March 7, 2016 (“Annual Report”).

Consolidation Policy

The accompanying condensed consolidated financial statements include the accounts of American Midstream Partners, LP, and its controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the accompanying condensed consolidated financial statements.

Investment in Unconsolidated Affiliates

We hold various non-operated membership interests in entities that own and operate natural gas pipeline systems, NGL and crude oil pipelines in and around Louisiana, Alabama, Mississippi and the Gulf of Mexico. These non-operated membership interests in which the Partnership exercises significant influence, but does not control and is not the primary beneficiary, are accounted for using the equity method and are reported in Investment in unconsolidated affiliates in the accompanying condensed consolidated balance sheets.

The Partnership believes the equity method is an appropriate means to recognize increases or decreases, measured by GAAP, in the economic resources underlying the investments. Regular evaluation of these investments is appropriate to evaluate any potential need for impairment. The Partnership uses evidence of a loss in value to identify if an investment has incurred an other than temporary decline.

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Use of Estimates

When preparing condensed consolidated financial statements in conformity with GAAP, management must make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates and assumptions are based on information available at the time such estimates and assumptions are made. Adjustments made with respect to the use of these estimates and assumptions often relate to information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. Estimates and assumptions are used in, among other things, i) estimating unbilled revenues, product purchases and operating and general and administrative costs, ii) developing fair value assumptions, including estimates of future cash flows and discount rates, iii) analyzing long-lived assets, goodwill and intangible assets for possible impairment, iv) estimating the useful lives of assets and v) determining amounts to accrue for contingencies, guarantees and indemnifications. Actual results, therefore, could differ materially from estimated amounts.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. The standard requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 was subsequently issued and deferred the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) - Principal Versus Agent Considerations, as further clarification on principal versus agent considerations. Subsequently, in April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing as further clarification on identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606)-Narrow-Scope Improvements and Practical Expedients, as clarifying guidance on specific narrow scope improvements and practical expedients. The Partnership is currently evaluating the adoption of these standards and their impact on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation - Amendments to the Consolidation Analysis, which amends the current consolidation guidance. The amendments affect both the variable interest entity ("VIE") and voting interest entity ("VOE") consolidation models. The standard is effective for public reporting entities in the fiscal periods beginning after December 15, 2015. The Partnership reviewed its VIEs and VOEs in connection with the adoption of this standard and determined no change to its previous conclusions was required.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This amendment requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Partnership is currently evaluating the method of adoption and impact this standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815). This amendment clarifies existing guidance for assessing embedded call (put) options that are closely related to their debt hosts using a four-step decision sequence. ASU 2016-06 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Partnership has evaluated this guidance and determined it will not have a material impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323). This amendment eliminates the requirement to retroactively adopt the equity method of accounting when a previous investment becomes qualified as a result of an increase in the level of ownership interest or degree of influence. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal periods. Early adoption is permitted. The Partnership has evaluated this guidance and determined it will not have a material impact on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). This amendment involves the simplification of several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal periods. Early adoption is

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permitted. The Partnership is currently evaluating the method of adoption and impact this standard will have on its consolidated financial statements and related disclosures.

2. Acquisitions

Emerald Transactions

On April 25, 2016 and April 27, 2016, American Midstream Emerald, LLC ("Emerald"), a wholly-owned subsidiary of the Partnership, entered into two purchase and sale agreements with Emerald Midstream, LLC, an affiliate of ArcLight Capital Partners, LLC ("ArcLight"), the majority owner of our General Partner, for the purchase of membership interests in certain midstream entities.

On April 25, 2016, Emerald entered into the first purchase and sale agreement for the purchase of membership interests in entities that own and operate natural gas pipeline systems and NGL pipelines in and around Louisiana, Alabama, Mississippi, and the Gulf of Mexico (the "Pipeline Purchase Agreement"). Pursuant to the Pipeline Purchase Agreement, Emerald acquired (i) 49.7% of the issued and outstanding membership interests of Destin Pipeline Company, L.L.C. ("Destin"), (ii) 16.7% of the issued and outstanding membership interests of Tri-States NGL Pipeline, L.L.C. ("Tri-States"), and (iii) 25.3% of the issued and outstanding membership interests of Wilprise Pipeline Company, L.L.C. ("Wilprise" and collectively with Destin and Tri-States, the "Companies"), in exchange for approximately $183.6 million (the "Pipeline Transaction").

The Destin pipeline is a FERC-regulated, 255-mile natural gas transportation system with total capacity of 1.2 Bcf/d. The system originates offshore in the Gulf of Mexico and includes connections with four producing platforms, and six producer-operated laterals, including the Partnership's non-operated indirect interest in the Delta House floating production system and related pipeline infrastructure ("Delta House"). The 120-mile offshore portion of the Destin system terminates at the Pascagoula processing plant, owned by Enterprise Products Partners, LP, is the single source of raw natural gas to the plant. The onshore portion of Destin is the sole delivery point for merchant-quality gas from the Pascagoula processing plant and extends 135 miles north in Mississippi. Destin currently serves as the primary transfer of gas flows from the Barnett and Haynesville shale plays to Florida markets through interconnections with major interstate pipelines. Contracted volumes on the Destin pipeline are based on life-of-field dedication, dedicated volumes over a given period, or interruptible volumes as capacity permits. The Tri-States pipeline is a FERC-regulated, 161-mile natural gas liquids ("NGL") pipeline and sole form of transport to Louisiana-based fractionators for NGLs produced at the Pascagoula plant served by Destin and other facilities. The Wilprise pipeline is a FERC-regulated, approximately 30-mile NGL pipeline that originates at the Kenner Junction and terminates in Sorrento, Louisiana, where volumes flow via pipeline to a Baton Rouge fractionator.

On April 27, 2016, Emerald entered into a second purchase and sale agreement for the purchase of 66.7% of the issued and outstanding membership interests of Okeanos Gas Gathering Company, LLC ("Okeanos"), in exchange for a cash purchase price of approximately $27.4 million (such Purchase and Sale Agreement, the "Okeanos Purchase Agreement," and such transaction, the "Okeanos Transaction," and together with the Pipeline Transaction, the "Emerald Transactions"). The Okeanos pipeline is a 100-mile natural gas gathering system located in the Gulf of Mexico with a total capacity of 1.0 Bcf/d. The Okeanos pipeline connects two platforms and one lateral, terminating at the Destin Main Pass 260 platform in the Mississippi Canyon region of the Gulf of Mexico. Contracted volumes on the Okeanos pipeline are based on life-of-field dedication.

The Partnership funded the aggregate purchase price for the Emerald Transactions with the issuance of 8,571,429 shares of newly-designated Series C convertible preferred units (the “Series C Units”) representing limited partnership interests in the Partnership and a warrant (the “Warrant”) to purchase up to 800,000 common units representing limited partnership interests in the Partnership ("common units") at an exercise price of $7.25 per common unit amounting to

a combined value of approximately $120.0 million, plus additional borrowings of $91.0 million under our Credit Agreement (as defined herein). Affiliates of our General Partner hold and participate in distributions on our Series C Units with such distributions being made in paid-in-kind Series C Units, cash or a combination thereof at the election of the Board of Directors of our General Partner.

Because our interests in the entities underlying the Emerald Transactions were previously owned by an affiliate of our General Partner, we accounted for our investments at our affiliate's carry-over basis of $212.0 million, which is recorded in Investment in unconsolidated affiliates in our condensed consolidated balance sheets, and as an investing activity of $100.9 million within the condensed consolidated statements of cash flows. The amount by which the carry-over basis exceeded total consideration was $1.0 million and is recorded as a contribution from our General Partner within the condensed consolidated statements of changes in partners' capital and noncontrolling interests. Pursuant to the individual limited liability company or operating agreements for the entities acquired in the Emerald Transactions, we have no management control or authority over the day-to-day operations over the assets acquired in the Emerald Transactions. Our interests acquired in the entities underlying the Emerald Transactions are accounted for as investments in unconsolidated affiliates in the condensed consolidated financial statements.

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For the three-months ended June 30, 2016, the Partnership recorded $4.2 million in earnings and received cash distributions of $5.4 million from the entities underlying the Emerald Transactions. The excess of the cash distributions received over the earnings recorded is classified as proceeds from Investment in unconsolidated affiliates, return of capital within cash flows from investing activities in our condensed consolidated statement of cash flows.

Gulf of Mexico Pipelines

On April 15, 2016, American Panther, LLC ("American Panther"), a 60%-owned subsidiary of the Partnership, acquired approximately 200 miles of crude oil, natural gas, and salt water onshore and offshore Gulf of Mexico pipelines ("Gulf of Mexico Pipeline") for approximately $3.1 million in cash and the assumption of certain asset retirement obligations. The Partnership exerts control over American Panther and therefore consolidates its financial activity for financial reporting purposes.

The acquisition was accounted for using the acquisition method of accounting and as a result, the aggregate purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values as of the acquisition date.

The following tables summarize the fair value of consideration transferred by the Partnership for the acquisition and the preliminary allocation of that amount to the assets acquired and liabilities assumed based on their respective fair values as of the acquisition date (in thousands).

Fair value of consideration transferred:	
Cash	$3,073

Fair value of assets acquired, liabilities assumed:	
Assets:	
Property, plant and equipment:	
Pipelines	$16,952
Land	421
Total property, plant and equipment	17,373
Liabilities:	
Asset retirement obligations	(14,300)
Fair value of net assets acquired and liabilities assumed	$3,073

American Panther contributed revenue of $4.3 million and net income of $2.6 million for the period of April 15, 2016 through June 30, 2016, which is included in the Partnership's Gathering and Processing segment. Additionally, the Partnership incurred $0.2 million of transaction costs related to the acquisition which are included in Selling, general and administrative expenses in our condensed consolidated statement of operations for the three months ended June 30, 2016.

Pro forma financial results are not presented as it is impractical to obtain the necessary information. The seller did not operate the acquired assets as a standalone business and, therefore, historical financial information is not available.

Additional Delta House Investment

On April 25, 2016, American Midstream Delta House, LLC ("AMID Delta House"), a wholly-owned subsidiary of the Partnership, entered into a unit purchase agreement with an affiliate of ArcLight, pursuant to which AMID Delta House acquired 100% of the outstanding membership interests in D-Day Offshore Holdings, LLC ("D-Day"), which

owned (i) 912.4 Class A Units of Delta House FPS LLC and (ii) 53.5 Class A Units of Delta House Oil and Gas Lateral LLC in exchange for a cash purchase price of approximately $9.9 million funded with additional borrowings under the Partnership's Credit Agreement. Delta House is a floating production system platform with associated crude oil and natural gas export pipelines, located in the Mississippi Canyon region of the deepwater Gulf of Mexico.

Because our interest in D-Day was previously owned by an affiliate of our General Partner, we have accounted for our investment at our affiliate's carry-over basis of $9.9 million, which is recorded in Investments in unconsolidated affiliates in our condensed consolidated balance sheets and as an investing activity within the condensed consolidated statements of cash flows.

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For the three-months ended June 30, 2016, the Partnership recorded $0.4 million in earnings and received cash distributions of $1.1 million from its D-Day investment. The excess of the cash distributions received over the earnings recorded is classified as a return of capital within cash flows from investing activities in our condensed consolidated statements of cash flows.

The investment in D-Day, together with our 26.3% interest in Pinto Offshore Holdings, LLC, an entity that owns a 49.0% non-operated interest in Delta House, results in the Partnership holding a combined 13.9% non-operated indirect interest in Delta House. Pursuant to the agreements governing the underlying entities, we have no management control or authority over the day-to-day operations of Delta House. Our interests in Delta House are accounted for as investments in unconsolidated affiliates in the condensed consolidated financial statements.

Divestitures

On June 1, 2015, the Partnership disposed of certain non-strategic off-shore transmission assets in Louisiana with a net book value of $3.0 million for nominal proceeds, resulting in a non-cash loss on disposal of $3.0 million.

3. Concentration of Credit Risk and Trade Accounts Receivable

Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Mississippi, North Dakota, Tennessee, Texas and the Gulf of Mexico, provide critical infrastructure that links customers of crude oil, natural gas, NGLs, condensate and specialty chemicals to numerous intermediate and end-use markets. As a result of recent acquisitions and geographic diversification, we have reduced the concentration of trade receivable balances due from these customer groups. Our customers' historical financial and operating information is analyzed prior to extending credit. We manage our exposure to credit risk through credit analysis, credit approvals, credit limits and monitoring procedures and for certain transactions, we may request letters of credit, prepayments or guarantees. We maintain allowances for potentially uncollectible accounts receivable; however, for the three and six months ended June 30, 2016 and 2015, no allowances on or significant write-offs of accounts receivable were recorded.

During the three and six months ended June 30, 2016, one customer accounted for 10% and 11%, respectively, of the Partnership's consolidated revenue. During the three and six months ended June 30, 2015, no individual customer accounted for 10% or more of the Partnership's consolidated revenue.

4. Other Current Assets

Other current assets consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Prepaid insurance	$3,073	$ 3,948
Accrued distributions from unconsolidated affiliates	4,359	—
Other prepaid amounts	2,108	2,866
Other current assets	3,808	3,280
	$13,348	$ 10,094

5. Derivatives

Commodity Derivatives

To limit the effect of commodity price changes and maintain our cash flow and the economics of our development plans, we enter into commodity derivative contracts from time to time. The terms of the contracts depend on various factors, including management's view of future commodity prices, economics on purchased assets and future financial commitments. The hedging program is designed to mitigate the effect of commodity price declines while allowing us to participate in commodity price increases. Management regularly monitors the commodity markets and financial commitments to determine if, when and at what level commodity hedging is appropriate in accordance with policies that are established by the board of directors of our General Partner. Currently, our commodity derivatives are in the form of swaps. As of June 30, 2016, the aggregate notional volume of our commodity derivatives was 5.6 million gallons of NGLs, natural gasoline and crude oil equivalent for 2016 production.

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We enter into commodity derivative contracts with multiple counterparties, and in some cases, may be required to post collateral with our counterparties in connection with our derivative positions. As of June 30, 2016, we were not required to post collateral with any counterparty. The counterparties are not required to post collateral with us in connection with their derivative positions. Netting agreements are in place that permit us to offset our commodity derivative asset and liability positions with our counterparties.

We did not designate any of our commodity derivatives as hedges for accounting purposes. As a result, our commodity derivatives are accounted for at fair value in our condensed consolidated balance sheets with changes in fair value recognized currently in earnings.

Interest Rate Swaps

To manage the impact of the interest rate risk associated with our Credit Agreement, we enter into interest rate swaps from time to time, effectively converting a portion of the cash flows related to our long-term variable rate debt into fixed rate cash flows. As of June 30, 2016, the total notional amount of our interest rate swaps was $300.0 million.

In the first quarter of 2016, we entered into interest rate swaps with a notional amount of $200.0 million. The interest rate swaps were entered into with a single counterparty and we were not required to post collateral. The interest rate swaps will expire September 3, 2019.

In the second quarter of 2016, we entered into additional interest rate swaps with a notional amount of $100.0 million. The interest rate swaps were entered into with a single counterparty and we were not required to post collateral. The interest rate swaps are effective beginning January 1, 2018 and will expire December 31, 2021.

Weather Derivative

In the second quarter of 2016, we entered into a weather derivative to mitigate the impact of potential unfavorable weather on our operations under which we could receive payments totaling up to $30.0 million in the event that a hurricane or hurricanes of certain strength pass through the areas identified in the derivative agreement. The weather derivative is accounted for using the intrinsic value method. The weather derivative was entered into with a single counterparty and we were not required to post collateral.

We paid premiums of $1.0 million and $0.9 million during the six months ended June 30, 2016 and 2015, respectively, which were recorded as current Risk management assets on our condensed consolidated balance sheet and are being amortized to Direct operating expenses on a straight-line basis over the term of the contract of one year. Unamortized amounts associated with the weather derivatives were approximately $0.9 million as of June 30, 2016. As of June 30, 2016 and December 31, 2015, the value associated with our commodity derivatives, interest rate swaps, and weather derivative were recorded in our condensed consolidated balance sheets as follows (in thousands):

Balance Sheet Classification	Gross Risk Management Assets		Gross Risk Management (Liabilities)		Net Risk Management Assets (Liabilities)	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Current	$ 944	$ 365	$ —	$ —	$ 944	$ 365
Noncurrent	—	—	—	—	—	—
Total assets	$ 944	$ 365	$ —	$ —	$ 944	$ 365
Current	$ —	$ —	$ (832)	$ —	$ (832)	$ —
Noncurrent	—	—	(2,556)	—	(2,556)	—
Total liabilities	$ —	$ —	$ (3,388)	$ —	$ (3,388)	$ —

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For the three and six months ended June 30, 2016 and 2015, respectively, the realized and unrealized gains (losses) associated with our commodity derivatives, interest rate swaps and weather derivative were recorded in our condensed consolidated statements of operations as follows (in thousands):

	Three months ended June 30, Gain (loss) on Derivatives		Six months ended June 30, Gain (loss) on derivatives	
Statement of Operations Classification	Realized	Unrealized	Realized	Unrealized
2016				
Gain (loss) on commodity derivatives, net	$(244)	$ (522)	$(244)	$ (625)
Interest expense	—	(2,033)	—	(2,763)
Direct operating expenses	(232)	—	(450)	—
Total	$(476)	$ (2,555)	$(694)	$ (3,388)
2015				
Gain (loss) on commodity derivatives, net	$252	$ 59	$391	$ 67
Interest expense	(101)	98	(203)	146
Direct operating expenses	(234)	—	(475)	—
Total	$(83)	$ 157	$(287)	$ 213

6. Fair Value Measurement

We believe the carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the short-term maturity of these instruments.

The recorded value of the amount outstanding under the Credit Agreement approximates its fair value, as interest rates are variable, based on prevailing market rates, and due to the short-term nature of borrowings and repayments under the Credit Agreement.

The fair value of our commodity and interest rate derivatives instruments are estimated using a market valuation methodology based upon forward commodity price curves, volatility curves as well as other relevant economic measures, if necessary. Discount factors may be utilized to extrapolate a forecast of future cash flows associated with long dated transactions or illiquid market points. The inputs are obtained from independent pricing services, and we have made no adjustments to the obtained prices.

We have consistently applied these valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivatives contracts held. We will recognize transfers between levels at the end of the reporting period in which the transfer occurred. There were no such transfers for the six months ended June 30, 2016 and 2015.

Fair Value of Financial Instruments

The following table sets forth, by level within the fair value hierarchy, our commodity derivative instruments and interest rate swaps, included as part of Risk management assets and Risk management liabilities within our condensed consolidated balance sheets, that were measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 (in thousands):

	Carrying Amount	Estimated Fair Value of the Assets (Liabilities)			
		Level 1	Level 2	Level 3	Total

Commodity derivative instruments, net:					
June 30, 2016	$(625)	$—	$(625)	$—	$(625)
December 31, 2015	—	—	—	—	—
Interest rate swaps:					
June 30, 2016	$(2,763)	$—	$(2,763)	$—	$(2,763)
December 31, 2015	—	—	—	—	—

The unamortized portion of the premium paid to enter the weather derivative described in Note 5 "Derivatives" is included within Risk management assets on our condensed consolidated balance sheets but is not included as part of the above table as it is recorded at amortized carrying cost, not fair value.

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7. Property, Plant and Equipment, Net

Property, plant and equipment, net, as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

	Useful Life (in years)	June 30, 2016	December 31, 2015
Land	N/A	$5,703	$ 5,282
Construction in progress	N/A	61,203	46,045
Buildings and improvements	4 to 40	9,959	9,864
Processing and treating plants	8 to 40	102,003	97,784
Pipelines and compressors	3 to 40	573,084	554,400
Storage	20 to 40	58,226	58,394
Equipment	5 to 20	37,065	22,207
Total property, plant and equipment		847,243	793,976
Accumulated depreciation		(164,134)	(145,963)
Property, plant and equipment, net		$683,109	$ 648,013

Of the gross property, plant and equipment balances at June 30, 2016 and December 31, 2015, $132.0 million and $111.9 million, respectively, were related to AlaTenn, American Midstream Midla, LLC ("Midla") and High Point Gathering Systems, our FERC regulated interstate and intrastate assets.

Capitalized interest was $0.5 million for the three months ended June 30, 2016 and 2015, respectively, and $1.0 million and $0.7 million for the six months ended June 30, 2016 and 2015, respectively.

Depreciation expense was $9.4 million and $7.6 million for the three months ended June 30, 2016 and 2015, respectively, and $18.2 million and $15.5 million for the six months ended June 30, 2016 and 2015, respectively.

In February 2016, the Partnership reached a settlement of certain indemnification claims with Energy Spectrum Partners VI LP and Costar Midstream Energy, LLC, the sellers in the Partnership's acquisition of 100% of the membership interests of Costar Midstream, L.L.C. ("Costar" and such acquisition, the "Costar Acquisition"), whereby 1,034,483 of the common units held in escrow were returned to the Partnership and canceled, while the Partnership agreed to pay the Costar sellers an additional $0.7 million in cash. The net impact of this settlement was recorded as a reduction in Property, plant and equipment, net and Limited partner interests in the first half of 2016.

8. Goodwill and Intangible Assets, Net

The carrying value of goodwill as of June 30, 2016 and December 31, 2015, all of which related to our Terminals segment, was $16.3 million.

The goodwill was contributed to the Partnership as part of the acquisition of Blackwater Midstream Holdings LLC ("Blackwater") and other related subsidiaries from an affiliate of our General Partner (the "Blackwater Acquisition").

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Intangible assets, net, consists of customer relationships and dedicated acreage agreements identified as part of the Costar and Lavaca acquisitions. These intangible assets have definite lives and are subject to amortization on a straight-line basis over their economic lives, currently ranging from 10 years to 30 years. Intangible assets, net, consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Gross carrying amount:		
Customer relationships	$53,400	$53,400
Dedicated acreage	53,350	53,350
	$106,750	$106,750
Accumulated amortization:		
Customer relationships	$(4,410)	$(3,124)
Dedicated acreage	(3,550)	(2,661)
	$(7,960)	$(5,785)
Net carrying amount:		
Customer relationships	$48,990	$50,276
Dedicated acreage	49,800	50,689
	$98,790	$100,965

Amortization expense on our intangible assets totaled $1.1 million and $1.5 million for the three months ended June 30, 2016 and 2015, respectively, and $2.2 million and $3.1 million for the six months ended June 30, 2016 and 2015, respectively.

9. Investment in unconsolidated affiliates

The following table summarizes our percentage ownership interests in investments in unconsolidated affiliates:

	Percentage Ownership
Destin	49.7 %
Tri-States	16.7 %
Delta House	13.9 %
Wilprise	25.3 %
Okeanos	66.7 %
Main Pass Oil Gathering Company, LLC ("MPOG")	66.7 %
Mesquite	47.3 %

The following table presents the activity in the Partnership's equity investments for the six months ended June 30, 2016 (in thousands):

	Destin	Tri-States	Delta House	Others (1)	Total
Balances at December 31, 2015	$—	$—	$56,525	$25,776	$82,301
Investments	122,830	56,681	9,873	32,515	221,899
Earnings in unconsolidated affiliates	2,027	869	14,264	1,830	18,990
Contributions	—	—	—	12,459	12,459
Distributions	(6,631)	(1,092)	(28,359)	(3,995)	(40,077)
Balances at June 30, 2016	$118,226	$56,458	$52,303	$68,585	$295,572

(1) Includes activity associated with our non-operated interests in Wilprise, Okeanos, MPOG and Mesquite.

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The following tables present the summarized combined financial information for the Partnership's equity investments (amounts represent 100% of investee financial information):

Balance Sheets:	June 30, 2016	December 31, 2015
Current assets	$170,283	$ 2,086
Non-current assets	1,470,286	288,617
Current liabilities	182,895	366
Non-current liabilities	475,602	23,617

	Three months ended June 30,		Six months ended June 30,	
Income Statements:	2016	2015	2016	2015
Total revenue	$87,054	$1,974	$151,997	$4,410
Operating expense	6,649	768	7,541	1,738
Net income	65,613	(2)	120,777	241

The unconsolidated affiliates described above were each determined to be variable interest entities due to disproportionate economic interests and decision making rights. In each case, the Partnership lacks the power to direct the activities that most significantly impact each unconsolidated affiliate's economic performance. As the Partnership does not hold a controlling interest in these affiliates, the Partnership accounts for its related investments using the equity method. The Partnership’s maximum exposure to loss related to each entity is limited to its equity investment as presented on the condensed consolidated balance sheet at June 30, 2016. In each case, the Partnership is not obligated to absorb losses greater than its proportional ownership percentages indicated above. In each case, the Partnership’s right to receive residual returns is not limited to any amount less than the proportional ownership percentages indicated above.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows (in thousands):

	June 30, 2016	December 31, 2015
Current portion of asset retirement obligation (a)	$6,826	$ 6,822
Accrued capital expenditures	8,299	3,984
Accrued expenses	11,788	3,178
Due to related parties	2,424	3,894
Other	7,740	7,157
	$37,077	$ 25,035

(a) Associated with certain Gathering and Processing assets.

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11. Asset Retirement Obligations

We record a liability for the fair value of asset retirement obligations and conditional asset retirement obligations that we can reasonably estimate, on a discounted basis, in the period in which the liability is incurred. We collectively refer to asset retirement obligations and conditional asset retirement obligations as ARO.

Certain assets related to our Transmission segment have regulatory obligations to perform remediation and, in some instances, dismantlement and removal activities when the assets are abandoned. These asset retirement obligations include varying levels of activity including disconnecting inactive assets from active assets, cleaning and purging assets, and in some cases, completely removing the assets and returning the land to its original state. These assets have been in existence for many years and with regular maintenance will continue to be in service for many years to come. It is not possible to predict when demand for these transmission services will cease, and we do not believe that such demand will cease for the foreseeable future. A portion of our regulatory obligations is related to assets that we plan to take out of service.

The following table is a reconciliation of the asset retirement obligations for the six months ended June 30, 2016 (in thousands):

Beginning asset retirement obligation	$35,371
Liabilities assumed	14,300
Expenditures	(11)
Accretion expense	596
Total ending asset retirement obligation	$50,256
Less: current portion	6,826
Long-term asset retirement obligation	$43,430

As a result of the Gulf of Mexico Pipeline acquisition, we have recorded an additional ARO of $14.3 million.

We are required to establish security against any potential secondary obligations relating to the abandonment of certain transmission assets that may be imposed on the previous owner by applicable regulatory authorities. As such, we have a restricted cash account maintained by a third party that amounted to $5.0 million as of June 30, 2016 and is presented in Other assets, net in our consolidated balance sheets.

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12. Debt Obligations

Our outstanding borrowings under the credit facility were (in thousands):

	June 30, 2016	December 31, 2015
Revolving credit facility	$672,400	$ 525,100
Other debt	731	2,338
Total debt	673,131	527,438
Less: current portion	731	2,338
Long-term debt	$672,400	$ 525,100

Effective as of April 25, 2016, the Partnership entered into the Second Amendment to the Amended and Restated Credit Agreement, (as amended, the "Credit Agreement"), which provides for maximum borrowings equal to $750.0 million, with the ability to further increase the borrowing capacity to $900.0 million, subject to lender approval. We can elect to have loans under our Credit Agreement bear interest either at a Eurodollar-based rate, plus a margin ranging from 2.00% to 3.25% depending on our total leverage ratio then in effect, or a base rate which is a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate, plus 0.50%, (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate”, or (c) the Eurodollar Rate plus 1.00%, plus a margin ranging from 1.00% to 2.25% depending on the total leverage ratio then in effect. We also pay a commitment fee of 0.50% per annum on the undrawn portion of the revolving loan under the Credit Agreement.

Our obligations under the Credit Agreement are secured by a lien on substantially all of our assets. Advances made under the Credit Agreement are guaranteed on a senior unsecured basis by certain of our subsidiaries (the “Guarantors”). These guarantees are full and unconditional and joint and several among the Guarantors. The terms of the Credit Agreement include covenants that restrict our ability to make cash distributions and acquisitions in some circumstances. The remaining principal balance of loans and any accrued and unpaid interest will be due and payable in full on the maturity date, which is September 5, 2019.

The Credit Agreement contains certain financial covenants, including a consolidated total leverage ratio which requires our indebtedness not to exceed 4.75 times adjusted consolidated EBITDA for the prior twelve month period, adjusted in accordance with the Credit Agreement (except for the current and subsequent two quarters after the consummation of a permitted acquisition, at which time the covenant may be increased to 5.25 times adjusted consolidated EBITDA) and a minimum interest coverage ratio that requires our adjusted consolidated EBITDA to exceed consolidated interest charges by not less than 2.50 times. The financial covenants in our Credit Agreement may limit the amount available to us for borrowing to less than $750.0 million. In addition to the financial covenants described above, the Credit Agreement also contains customary events of default (including those relating to monetary defaults, covenant defaults, cross defaults and bankruptcy events). As of June 30, 2016, our consolidated total leverage ratio was 4.15 and our interest coverage ratio was 8.86, which was in compliance with the related requirements.

For the six months ended June 30, 2016 and 2015, the weighted average interest rate on borrowings under our Credit Agreement was approximately 4.35% and 3.15%, respectively.

At June 30, 2016 and December 31, 2015, letters of credit outstanding under the Credit Agreement were $5.4 million and $1.8 million, respectively.

As of June 30, 2016, we were in compliance with the covenants included in the Credit Agreement. Our ability to maintain compliance with the consolidated total leverage and interest coverage ratios included in the Credit

Agreement may be subject to, among other things, the timing and success of initiatives we are pursuing, which may include expansion capital projects, acquisitions or drop down transactions, as well as the associated financing for such initiatives.

Other debt

Other debt represents insurance premium financing in the original amount of $3.0 million bearing interest at 3.95% per annum, which is repayable in equal monthly installments of approximately $0.3 million through the third quarter of 2016.

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13. Partners’ Capital and Convertible Preferred Units

Our capital accounts are comprised of approximately 1.3% notional general partner interests and 98.7% limited partner interests as of June 30, 2016. Our limited partners have limited rights of ownership as provided for under our Partnership Agreement and the right to participate in our distributions. Our General Partner manages our operations and participates in our distributions, including certain incentive distributions pursuant to the incentive distribution rights that are non-voting limited partner interests held by our General Partner. Pursuant to our Partnership Agreement, our General Partner participates in losses and distributions based on its interest. The General Partner's participation in the allocation of losses and distributions is not limited and therefore, such participation can result in a deficit to its capital account. As such, allocation of losses and distributions, including distributions for previous transactions between entities under common control, has resulted in a deficit to the General Partner's capital account included in our condensed consolidated balance sheets.

Affiliates of our General Partner hold and participate in distributions on our Series A Units and newly issued Series C Units (see below for further details) with such distributions being made in paid-in-kind units, cash or a combination thereof, at the election of the Board of Directors of our General Partner. The Series A Units and Series C Units are entitled to vote along with Limited Partner common unitholders and such units are currently convertible to common units.

On February 1, 2016, all outstanding Series B Units were converted on a one-for-one basis into common units. Prior to their conversion, our General Partner held and participated in distributions on our Series B Units with such distributions being made in cash or with paid-in-kind Series B Units. The holders of Series B Units were entitled to vote along with the holders of common units prior to conversion.

At-The-Market ("ATM") Offering

On October 18, 2015, we filed a prospectus supplement related to the offer and sale from time to time of common units in an at-the-market offering. For the six months ended June 30, 2016, we sold 248,561 common units for proceeds of $3.2 million, net of commissions and accrued offering costs of less than $0.1 million, which were used for general partnership purposes including the repayment of amounts outstanding under the Credit Agreement, the funding of acquisitions and the funding of capital expenditures. As of June 30, 2016, approximately $96.8 million remained available for sale under the Partnership's ATM Equity Offering Sales Agreement.

Series C Convertible Preferred Units

On April 25, 2016, the Series C Convertible Preferred Units (the "Series C Units") were created and issued pursuant to the Fifth Amended and Restated Agreement of Limited Partnership of American Midstream Partners, LP ("Partnership Agreement").

The Series C Units have the right to receive cumulative distributions in the same priority as the Series A Units, which is before any other distributions made in respect of any other partnership interests, in the amounts described herein with such distributions being made in paid-in-kind units, cash or a combination thereof, at the election of the Board of Directors of our General Partner. If all or any portion of a distribution on the Series C Units is to be paid in cash, then the aggregate amount of such cash to be distributed in respect of the Series C Units outstanding will be paid out of available cash in the same priority as any cash distributions made to the Series A unitholders, which will be made prior to any distributions to the General Partner or our common unitholders. To the extent that any portion of a distribution on Series C units (or Series A units) to be paid in cash exceeds the amount of Available Cash (as defined in the Partnership Agreement), an amount of cash equal to the Available Cash will be paid pro rata to the Series A

unitholders and the Series C unitholders and the balance of such Series A quarterly distribution and Series C quarterly distributions will become an arrearage until paid in a future quarter.

The Series C Units have voting rights that are identical to the voting rights of the common units and will vote with the common units as a single class on an as converted basis, with each Series C Unit initially entitled to one vote for each common unit into which such Series C Unit is convertible. The Series C Units also have separate class voting rights on any matter, including a merger, consolidation or business combination, that adversely affects, amends or modifies any of the rights, preferences, privileges or terms of the Series C Units. The Series C Units are convertible in whole or in part into common units at any time. The number of common units into which a Series C Unit is convertible will be an amount equal to (i) the sum of $14.00 and all accrued and accumulated but unpaid distributions, divided by (ii) the conversion price.

In the event that the Partnership issues, sells or grants any common units or convertible securities at an indicative per common unit price that is less than $14.00 per common unit (subject to customary anti-dilution adjustments), then the conversion will be adjusted according to a formula to provide for an increase in the number of common units into which Series C Units are convertible.

Upon any liquidation and winding up of the Partnership or the sale of substantially all of the assets of the Partnership, the holders of Series C Units generally will be entitled to receive, in preference to the holders of any of the Partnership's other securities, an amount equal to the sum of the $14.00 multiplied by the number of Series C Units owned by such holders, plus all accrued but unpaid distributions.

Call Right

At any time prior to April 25, 2017, the Partnership has the right (the "Series C Call Right") to require the holders of the Series C Units to sell, assign and transfer all or a portion of the then outstanding Series C Units to the Partnership for a purchase price of $14.00 per Series C Unit (subject to customary anti-dilution adjustments), plus all accrued but unpaid distributions on each Series C Unit.

The Partnership may not exercise the Series C Call Right with respect to any Series C Unit if the holder has elected to convert it into common units on or prior to the date the Partnership has provided notice of its intent to exercise its Series C Call Right, and may not exercise the Series C Call Right if doing so would violate applicable law or result in a default under any financing agreement or obligation of the Partnership or its affiliates.

Warrant

On April 25, 2016, pursuant to the Securities Purchase Agreement, the Partnership issued the Warrant to Magnolia Infrastructure Partners, LLC ("Magnolia," an affiliate of our General Partner), which allows it to purchase up to 800,000 common units at an exercise price of $7.25 per common unit. The Warrant is subject to standard anti-dilution adjustments and is exercisable for a period of seven years.

On April 25, 2017, the number of common units that may be purchased pursuant to the exercise of the Warrant will be adjusted by an amount, rounded to the nearest whole common unit, equal to the product obtained by the following calculation: (i) 400,000 multiplied by (ii) (A) the Series C Issue Price multiplied by the number of Series C Units then outstanding less $45.0 million divided by (B) the Series C Issue Price multiplied by the number of Series C Units issued, less $45.0 million.

Each issuance of any Series C Units issued in-kind as a distribution to holders of Series C Units ("Series C PIK Units") will increase the number of common units that can be purchased upon exercise of the Warrant by an amount, rounded to the nearest whole common unit, equal to the product obtained by the following calculation: (i) the total number of common units into which each Warrant may be exercised immediately prior to the most recent issuance of the Series C PIK Units multiplied by (ii) (A) the total number of outstanding Series C Units immediately after the most recent issuance of Series C PIK Units divided by (B) the total number of outstanding Series C Units immediately prior to the most recent issuance of Series C PIK Units.

The fair value of the Warrant was determined using a market approach that utilized significant inputs which are not observable in the market and thus represent a Level 3 measurement as defined by ASC 820. The estimated fair value of $4.41 per warrant unit was determined using a Black-Scholes model and the following significant assumptions: i) a dividend yield of 18%, ii) common unit volatility of 42% and iii) the seven-year term of the warrant to arrive at an aggregate fair value of $4.5 million.

General Partner Units

In order to maintain its ownership percentage, we received proceeds of $1.8 million from our General Partner as consideration for the issuance of 128,272 additional notional general partner units for the six months ended June 30,

2016. For the six months ended June 30, 2015, we received proceeds of $0.3 million for the issuance of 18,706 additional notional general partner units.

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Outstanding Units

The number of units outstanding as of June 30, 2016 and December 31, 2015, respectively, were as follows (in thousands):

	June 30, 2016	December 31, 2015
Series A convertible preferred units	9,797	9,210
Series B convertible units	—	1,350
Series C convertible preferred units	8,571	—
Limited Partner common units	31,146	30,427
General Partner units	664	536

Distributions

We made cash distributions as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Limited Partner common units	$12,745	$10,753	$27,763	$21,466
General Partner units	173	159	395	317
General Partners' incentive distribution rights	—	1,293	1,806	2,581
	$12,918	$12,205	$29,964	$24,364

On July 21, 2016, the Board of Directors of our General Partner declared a quarterly cash distribution of $0.4125 per unit for the quarter ended June 30, 2016, or $1.65 per unit on an annualized basis and equal to the Minimum Quarterly Distribution as defined in the Partnership Agreement. The distribution is expected to be paid on August 12, 2016, to unitholders of record as of the close of business on August 3, 2016. At June 30, 2016, we had accrued contractual cash distributions of $2.4 million and $2.2 million of paid-in-kind Series A Units that will be issued in August 2016. At June 30, 2016, we accrued contractual cash distributions of $1.3 million and $0.9 million of paid-in-kind Series C Units that will be issued in August 2016.

For the six months ended June 30, 2016, the Partnership issued 586,882 of paid-in-kind Series A Units and accrued a combination of cash and paid-in-kind unitholder distributions for Series A Units with a fair value of $9.1 million. For the six months ended June 30, 2015, the Partnership issued 365,641 of paid-in-kind Series A Units and accrued a combination of cash and paid-in-kind unitholder distributions for Series A Units with a fair value of $7.6 million.

The fair value of the paid-in-kind Series A and C Unit distributions for all quarters presented was determined primarily using the market and income approaches, requiring significant inputs which are not observable in the market and thus represent a Level 3 measurement as defined by ASC 820. Under the income approach, the fair value estimates for all periods presented were based on i) present value of estimated future contracted distributions, ii) option values ranging from $0.02 per unit to $1.88 per unit using a Black-Scholes model, and iii) assumed discount rates of 10.0% and 18.0%, respectively.

Net Income (Loss) attributable to Limited Partners

Net income (loss) is allocated to the General Partner and the limited partners in accordance with their respective ownership percentages, after giving effect to distributions on Series A Units and Series C Units, declared distributions on the Series B Units, General Partner units, including incentive distribution rights. Unvested unit-based payment awards that contain non-forfeitable rights to distributions (whether paid or unpaid) are classified as participating

securities and are included in our computation of basic and diluted limited partners' net income (loss) per common unit. Basic and diluted limited partners' net income (loss) per common unit is calculated by dividing limited partners' interest in net income (loss) by the weighted average number of outstanding limited partner units during the period. We determined basic and diluted limited partners' net income (loss) per common unit as follows (in thousands, except per unit amounts):

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	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income (loss) from continuing operations	$(3,591)	$(2,002)	$(7,555)	$(1,166)
Less: Net income (loss) attributable to noncontrolling interests	992	32	979	46
Net income (loss) from continuing operations attributable to the Partnership	(4,583)	(2,034)	(8,534)	(1,212)
Less:				
Distributions on Series A Units	4,602	4,196	9,073	7,607
Distributions on Series C Units	2,249	—	2,249	—
Declared distributions on Series B Units	—	413	—	833
General partner's distribution	173	1,452	2,201	2,899
General partner's share in undistributed loss	(322)	(234)	(659)	(422)
Net income (loss) from continuing operations available to Limited Partners	(11,285)	(7,861)	(21,398)	(12,129)
Net income (loss) from discontinued operations available to Limited Partners	—	(31)	—	(26)
Net income (loss) available to Limited Partners	$(11,285)	$(7,892)	$(21,398)	$(12,155)
Weighted average number of common units used in computation of Limited Partners’ net income (loss) per common unit (basic and diluted)	30,949	22,757	30,884	22,730
Limited Partners' net income (loss) per common unit (basic and diluted)	$(0.36)	$(0.35)	$(0.69)	$(0.53)

14. Long-Term Incentive Plan

Our General Partner manages our operations and activities and employs the personnel who provide support to our operations. On November 19, 2015, the Board of Directors of our General Partner approved the Third Amended and Restated Long-Term Incentive Plan to increase the number of common units authorized for issuance by 6,000,000 common units. On February 11, 2016, the unitholders approved the Third Amended and Restated Long-Term Incentive Plan (as amended and as currently in effect as of the date hereof, the "LTIP") which, among other things, increased the number of available awards by 6,000,000 common units. At June 30, 2016 and December 31, 2015, there were 4,941,325 and 15,484 common unit, respectively, available for future issuance under the LTIP.

All such equity-based awards issued under the LTIP consist of phantom units, Distribution Equivalent Rights ("DERs") or Option Grants. DERs and options have been granted on a limited basis. Future awards, such as options and DERs, may be granted at the discretion of the Compensation Committee and subject to approval by the Board of Directors of our General Partner.

Phantom Unit Awards. Ownership in the phantom unit awards is subject to forfeiture until the vesting date. The LTIP is administered by the Compensation Committee of the Board of Directors of our General Partner, which at its discretion, may elect to settle such vested phantom units with a number of common units equivalent to the fair market value at the date of vesting in lieu of cash. Although our General Partner has the option to settle in cash upon the vesting of phantom units, our General Partner has not historically settled these awards in cash. Under the LTIP, grants issued typically vest in increments of 25% on each grant anniversary date and do not contain any vesting requirements other than continued employment.

In December 2015, the Board of Directors of our General Partner approved a grant of 200,000 phantom units under the LTIP which contains DERs based on the extent to which the Partnership’s Series A Unitholders receive distributions in cash and will vest in one lump sum installment on the three year anniversary of the date of grant,

subject to acceleration in certain circumstances.

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The following table summarizes activity in our phantom unit-based awards for the six months ended June 30, 2016:

	Units	Weighted-Average Grant Price
Outstanding at beginning of period	569,759	$ 13.15
Granted	1,177,509	1.05
Forfeited	(102,934)	5.36
Vested	(179,326)	11.75
Outstanding at end of period	1,465,008	$ 4.14

The fair value of our phantom units, which are subject to equity classification, is based on the fair value of our common units at the grant date. Compensation costs related to these awards, including amortization applicable to prior awards, for the three months ended June 30, 2016 and 2015 were $1.0 million and $0.6 million, respectively, and for the six months ended June 30, 2016 and 2015, were $2.1 million and $2.2 million, respectively, which are classified as Equity compensation expense in our condensed consolidated statements of operations and in partners' capital on our condensed consolidated balance sheets.

The total fair value of vested units at the time of vesting was $1.0 million and $2.3 million for the six months ended June 30, 2016 and 2015, respectively.

Equity compensation expense related to unvested awards not yet recognized at June 30, 2016 and 2015 was $5.0 million and $6.0 million, respectively, and the weighted average period over which this cost is expected to be recognized as of June 30, 2016 was approximately 2.4 years.

Performance and Service Condition Awards. In November 2015, the Board of Directors of our General Partner modified awards to introduce certain performance and service conditions that we believe are probable of being achieved, amounting to $2.0 million payable in a variable amount of phantom units awards at the time of grant. These awards are accounted for as liability-based awards and equity-based compensation is to be accrued from the service-inception date through the estimated date of meeting both the performance and service conditions. Compensation costs related to these awards for the three and six months ended June 30, 2016 was $0.4 million and $0.6 million, respectively. Compensation costs related to unvested awards not yet recognized at June 30, 2016 was $0.9 million.

Option to Purchase Common Units. In December 2015, the Board of Directors of our General Partner approved the grant of an option to purchase 200,000 common units of the Partnership at an exercise price per unit equal to $7.50 (the "Option Grant"). The Option Grant will vest in one lump sum installment on January 1, 2019, subject to acceleration in certain circumstances, and will expire on March 15th of the calendar year following the calendar year in which it vests.

The following table summarizes our Option Grant awards, in units:

	Six months ended June 30, 2016	
	Units	Weighted-Average Exercise Price
Outstanding at beginning of period	200,000	$ 7.50
Granted	—	—
Forfeited	—	—
Vested	—	—

Outstanding at end of period	200,000	$ 7.50

Compensation costs related to these awards for the three and six months ended June 30, 2016 was immaterial. Compensation costs related to unvested awards not yet recognized at June 30, 2016 was $0.1 million.

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15. Income Taxes

With the exception of certain subsidiaries in our Terminals Segment, the Partnership is not subject to U.S. federal or state income taxes as such income taxes are generally borne by our unitholders through the allocation of our taxable income (loss) to them. The State of Texas does impose a franchise tax that is assessed on the portion of our taxable margin that is apportioned to Texas.

Income tax expense for the three and six months ended June 30, 2016 was $0.5 million and $0.9 million, respectively, resulting in an effective tax rate of 17.7% and 12.8%, respectively. For the three and six months ended June 30, 2015, income tax expense was $0.3 million and $0.5 million, respectively, resulting in an effective tax rate of 18.8% and 68.3%, respectively.

The effective tax rates for the three and six months ended June 30, 2016 and 2015, differ from the statutory rate primarily due to the portion of the Partnership's income and loss that is not subject to U. S. federal and state income taxes, as well as transactions between the Partnership and its taxable subsidiary that generate tax deductions for the taxable subsidiary, which are eliminated in consolidation.

16. Commitments and Contingencies

Legal proceedings

We are not currently party to any pending litigation or governmental proceedings, other than ordinary routine litigation incidental to our business. While the ultimate impact of any proceedings cannot be predicted with certainty, our management believes that the resolution of any of our pending proceedings will not have a material adverse effect on our financial condition or results of operations.

Environmental matters

We are subject to federal and state laws and regulations relating to the protection of the environment. Environmental risk is inherent to natural gas pipelines, NGL and crude pipelines and operations, as well as terminal operations and we could, at times, be subject to environmental cleanup and enforcement actions. We attempt to manage this environmental risk through appropriate environmental policies and practices to minimize any impact our operations may have on the environment.

Regulatory matters

On October 8, 2014, Midla reached an agreement in principle with its customers regarding the interstate pipeline that traverses Louisiana and Mississippi in order to provide continued service to its customers while addressing safety concerns with the existing pipeline.

On April 16, 2015, the FERC approved the stipulation and agreement (the "Midla Agreement") allowing Midla to retire the existing 1920s vintage pipeline and replace it with a new pipeline from Winnsboro, Louisiana to Natchez, Mississippi (the “Midla-Natchez Line”) to serve existing residential, commercial, and industrial customers. Under the Midla Agreement, customers not served by the new Midla-Natchez Line will be connected to other interstate or intrastate pipelines, other gas distribution systems, or offered conversion to propane service. On June 29, 2015, the Partnership filed with the FERC for authorization to construct the Midla-Natchez pipeline, which was approved on December 17, 2015. Construction commenced in the second quarter of 2016 with service expected to begin in early 2017. Under the Midla Agreement, Midla plans to execute long-term agreements seeking to recover its investment in

the Midla-Natchez Line.

Exit and disposal costs

On March 9, 2016, management committed and communicated to its employees a corporate relocation plan. The plan includes relocation assistance or one-time termination benefits for employees who render service until their respective termination date. Charges associated with one-time termination benefits will be recognized ratably over the requisite service period and presented in Selling, general and administrative expenses. We have estimated the fair value of the initial charge to be approximately $3.6 million, of which $2.5 million has been recorded in Accrued expenses and other current liabilities as of June 30, 2016. We expect the plan to be complete by the fourth quarter of 2016.

As part of the corporate relocation plan we have executed a 16-year office sublease as of June 29, 2016 with an estimated operating lease commitment of approximately $15.9 million.

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17. Related-Party Transactions

Employees of our General Partner are assigned to work for the Partnership or other affiliates of our General Partner. Where directly attributable, the costs of all compensation, benefits expenses and employer expenses for these employees are charged directly by our General Partner to American Midstream, LLC, which, in turn, charges the appropriate subsidiary or affiliate. Our General Partner does not record any profit or margin for the administrative and operational services charged to us. During the three and six months ended June 30, 2016, administrative payroll and operational services expenses of $8.9 million and $16.9 million, respectively, were charged to the Partnership by our General Partner. During the three and six months ended June 30, 2015, administrative payroll and operational services expenses of $6.9 million and $14.2 million, respectively, were charged to the Partnership by our General Partner.

For the three and six months ended June 30, 2016, our General Partner incurred approximately $0.1 million and $0.4 million, respectively, of business development expenses that were funded by the Partnership. For the three and six months ended June 30, 2015, our General Partner incurred approximately $0.5 million and $0.9 million of such costs. If the business development activities result in a project that will be pursued and funded by the Partnership, we will reimburse our General Partner for the related costs and record those costs in our consolidated statements of operations.

During the second quarter of 2014, the Partnership and an affiliate of its General Partner entered into a Management Service Fee arrangement under which the affiliate pays a monthly fee to reimburse the Partnership for administrative expenses incurred on the affiliate's behalf. For the three and six months ended June 30, 2016, the Partnership recognized $0.2 million and $0.4 million, respectively, in management fee income, and recognized $0.4 million and $0.9 million, respectively, for the three and six months ended June 30, 2015 that was recorded as a reduction to Selling, general and administrative expenses. For the three and six months ended June 30, 2016, an affiliate of our General Partner also incurred approximately $0.3 million and $0.2 million, respectively, of costs associated with reimbursable costs incurred on behalf of these affiliates. For the three and six months ended June 30, 2015, an affiliate of our General Partner also incurred approximately $0.5 million and $0.9 million, respectively, of costs associated with reimbursable costs incurred on behalf of these affiliates.

As of June 30, 2016 and December 31, 2015, the Partnership had $2.4 million and $3.8 million, respectively, due to our General Partner, which has been recorded in Accrued expenses and other current liabilities and relates primarily to compensation. This payable is generally settled on a quarterly basis related to the foregoing transactions.

18. Reportable Segments

Our operations are located in the United States and are organized into three reportable segments: i) Gathering and Processing, ii) Transmission and iii) Terminals.

Gathering and Processing

Our Gathering and Processing segment provides "wellhead-to-market" services to producers of natural gas and crude oil, which include transporting raw natural gas and crude oil from various receipt points through gathering systems, treating the raw natural gas, processing raw natural gas to separate the NGLs from the natural gas, fractionating NGLs, and selling or delivering pipeline-quality natural gas, crude oil and NGLs to various markets and pipeline systems.

Transmission

Our Transmission segment transports and delivers natural gas from producing wells, receipt points or pipeline interconnects for shippers and other customers, including local distribution companies ("LDCs"), utilities and

industrial, commercial and power generation customers.

Terminals

Our Terminals segment provides above-ground storage services at our marine terminals that support various commercial customers, including commodity brokers, refiners and chemical manufacturers to store a range of products, including petroleum products, distillates, chemicals and agricultural products.

These segments are monitored separately by management for performance and are consistent with the Partnership's internal financial reporting. These segments have been identified based on the differing products and services, regulatory environment and the expertise required for these operations. Gross margin is a performance measure utilized by management to monitor the results of each segment.

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The following tables set forth our segment information for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three months ended June 30, 2016			
	Gathering and Processing	Transmission	Terminals	Total
Revenue	$41,780	$ 8,740	$ 5,628	$56,148
Gain (loss) on commodity derivatives, net	(764)	(2)	—	(766)
Total revenue	41,016	8,738	5,628	55,382
Operating expenses:				
Purchases of natural gas, NGL's and condensate	20,964	1,138	—	22,102
Direct operating expenses	11,231	3,425	1,535	16,191
Selling, general and administrative expenses				11,432
Equity compensation expense				1,025
Depreciation, amortization and accretion expense				10,903
Total operating expenses				61,653
Gain (loss) on sale of assets, net				80
Interest expense				(8,507)
Earnings in unconsolidated affiliates				11,647
Income tax (expense) benefit				(540)
Net income (loss)				(3,591)
Less: Net income (loss) attributable to noncontrolling interests				992
Net income (loss) attributable to the Partnership				$(4,583)
Segment gross margin (a)	$20,605	$ 7,593	$ 4,093	$32,291

(a) Segment gross margin for our Gathering and Processing segment consists of total revenue plus unrealized losses on commodity derivatives of $0.5 million and loss on construction and operating management agreement ("COMA") of less than $0.1 million, less purchases of natural gas, NGLs and condensate.

Segment gross margin for our Transmission segment consists of total revenue less COMA income of less than $0.1 million and purchases of natural gas, NGLs and condensate.

Segment gross margin for our Terminals segment consists of total revenue less direct operating expenses.

	Three months ended June 30, 2015			
	Gathering and Processing	Transmission	Terminals	Total
Revenue	$50,439	$ 12,423	$ 4,336	$67,198
Gain (loss) on commodity derivatives, net	311	—	—	311
Total revenue	50,750	12,423	4,336	67,509
Operating expenses:				
Purchases of natural gas, NGL's and condensate	30,272	3,062	—	33,334
Direct operating expenses	9,130	3,253	1,584	13,967
Selling, general and administrative expenses				5,571
Equity compensation expense				550
Depreciation, amortization and accretion expense				9,250
Total operating expenses				62,672
Gain (loss) on sale of assets, net				(2,970)
Interest expense				(3,556)
Earnings in unconsolidated affiliate				4
Income tax (expense) benefit				(317)
Income (loss) from discontinued operations, net of tax				(31)
Net income (loss)				(2,033)
Less: Net income (loss) attributable to noncontrolling interests				32
Net income (loss) attributable to the Partnership				$(2,065)
Segment gross margin (a)	$20,219	$ 9,333	$ 2,752	