MARTIN MIDSTREAM PARTNERS LP
Form 10-K
March 04, 2010

Table of Contents

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

FORM 10-K

Mark One

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2009
OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________.
Commission file number 000-50056
MARTIN MIDSTREAM PARTNERS L.P.
(Exact name of registrant as specified in its charter)

Delaware	05-0527861
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

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

Securities Registered Pursuant to Section 12(b) of the Act:
NONE
Securities Registered Pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Units representing limited partnership interests	NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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

Yes þ No o

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

Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

Yes o No þ

As of June 30, 2009, 13,688,152 common units were outstanding. The aggregate market value of the common units held by non-affiliates of the registrant as of such date approximated $190,489,698 based on the closing sale price on that date. There were 17,707,832 of the registrant s common units and 889,444 of the registrant s subordinated units outstanding as of March 4, 2010.

DOCUMENTS INCORPORATED BY REFERENCE: None.

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	26
Item 1B.	Unresolved Staff Comments	46
Item 2.	Properties	46
Item 3.	Legal Proceedings	46
Item 4.	Reserved	46
	PART II	
Item 5.	Market for Our Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities	46
Item 6.	Selected Financial Data	49
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	51
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	74
Item 8.	Financial Statements and Supplementary Data	77
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	118
Item 9A.	Controls and Procedures	118
Item 9B.	Other Information	118
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	120
Item 11.	Executive Compensation	125
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	132
Item 13.	Certain Relationships and Related Transactions, and Director Independence	136
Item 14.	Principal Accounting Fees and Services	144
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	145

EX-21.1
EX-23.1
EX-23.2
EX-23.3
EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-99.1

Table of Contents

PART I

Item 1. Business

Overview

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

- Terminalling and storage services for petroleum products and by-products;
- Natural gas services;
- Sulfur and sulfur-based products processing, manufacturing, marketing and distribution; and
- Marine transportation services for petroleum products and by-products.

The petroleum products and by-products we gather, process, transport, store and market are produced primarily by major and independent oil and gas companies who often turn to third parties, such as us, for the transportation and disposition of these products. In addition to these major and independent oil and gas companies, our primary customers include independent refiners, large chemical companies, fertilizer manufacturers and other wholesale purchasers of these products. We generate the majority of our cash flow from fee-based contracts with these customers. Our location in the Gulf Coast region of the United States provides us strategic access to a major hub for petroleum refining, natural gas gathering and processing and support services for the exploration and production industry.

We were formed in 2002 by Martin Resource Management Corporation (Martin Resource Management), a privately-held company whose initial predecessor was incorporated in 1951 as a supplier of products and services to drilling rig contractors. Since then, Martin Resource Management has expanded its operations through acquisitions and internal expansion initiatives as its management identified and capitalized on the needs of producers and purchasers of hydrocarbon products and by-products and other bulk liquids. As of March 4, 2010, Martin Resource Management owns an approximate 40.0% limited partnership interest in us. Furthermore, it owns and controls our general partner, which owns a 2.0% general partner interest and incentive distribution rights in us.

The historical operation of our business segments by Martin Resource Management provides us with several decades of experience and a demonstrated track record of customer service across our operations. Our current lines of business have been developed and systematically integrated over this period of more than 50 years, including natural gas services (1950s); sulfur (1960s); marine transportation (late 1980s) and terminalling and storage (early 1990s). This development of a diversified and integrated set of assets and operations has produced a complementary portfolio of midstream services that facilitates the maintenance of long-term customer relationships and encourages the development of new customer relationships.

Primary Business Segments

Our primary business segments can be generally described as follows:

Terminalling and Storage. We own or operate 12 marine shore based terminal facilities and 11 specialty terminal facilities located in the United States Gulf Coast region that provide storage, processing and handling services for producers and suppliers of petroleum products and by-products, lubricants and other liquids, including the refining of various grades and quantities of naphthenic lubricants and related products. Our facilities and resources provide us with the ability to handle various products that require specialized treatment, such as molten sulfur and asphalt. We also provide land rental to oil and gas companies along with storage and handling services for lubricants and fuel oil. We provide these terminalling and storage services on a fee basis primarily under long-term contracts. A significant portion of the contracts in this segment provide for minimum fee arrangements that are not based on the volumes handled.

Natural Gas Services. Through our acquisitions of Prism Gas Systems I, L.P. (Prism Gas) and Woodlawn Pipeline Co., Inc. (Woodlawn), we have ownership interests in over 615 miles of gathering and transmission pipelines located in the natural gas producing regions of East Texas, Northwest Louisiana, the Texas Gulf

Coast and offshore Texas and federal waters in the Gulf of Mexico, as well as a 285 MMcfd capacity natural gas processing plant located in East Texas. In addition to our natural gas gathering and processing business, we distribute natural gas liquids or, NGLs . We purchase NGLs primarily from natural gas processors. We store NGLs in our supply and storage facilities for wholesale deliveries to propane retailers, refineries and industrial NGL users in Texas and the Southeastern United States. We own an NGL pipeline which spans approximately 200 miles running from Kilgore to Beaumont, Texas. We own three NGL supply and storage facilities with an aggregate above-ground storage capacity of approximately 3,000 barrels and we lease approximately 2.2 million barrels of underground storage capacity for NGLs. We believe we have a natural gas processing competitive advantage in East Texas with the only full fractionation facilities serving this area. The recent acquisition of natural gas gathering and processing assets from Crosstex Energy, L.P. and Crosstex Energy, Inc. by our Waskom Gas Processing Company (a joint venture in which we participate with Center Point Energy Gas Processing Company, an indirect, wholly-owned subsidiary of CenterPoint Energy, Inc.) further strengthens our East Texas infrastructure.

Sulfur Services. We have developed an integrated system of transportation assets and facilities relating to sulfur services over the last 30 years. We process and distribute sulfur predominantly produced by oil refineries primarily located in the United States Gulf Coast region. We handle molten sulfur on contracts that are tied to sulfur indices and tend to provide stable margins. We process molten sulfur into prilled or pelletized sulfur on take or pay fee contracts at our facilities in Port of Stockton, California and Beaumont, Texas. The sulfur we process and handle is primarily used in the production of fertilizers and industrial chemicals. We own and operate six sulfur-based fertilizer production plants and one emulsified sulfur blending plant that manufacture primarily sulfur-based fertilizer products for wholesale distributors and industrial users. These plants are located in Illinois, Texas and Utah. In October 2007, we completed the construction of a sulfuric acid production plant in Plainview, Texas which processes molten sulfur into sulfuric acid. Demand for our sulfur products exists in both the domestic and foreign markets, and we believe our asset base provides us with additional opportunities to handle increases in U.S. supply and access to foreign demand.

Marine Transportation. We own a fleet of 40 inland marine tank barges, 17 inland push boats and four offshore tug barge units that transport petroleum products and by-products largely in the United States Gulf Coast region. We provide these transportation services on a fee basis primarily under annual contracts and many of our customers have long standing contractual relationships with us. Over the past several years, we have focused on modernizing our fleet. As a result, the average age of our vessels has decreased from 33 years in 2006 to 22 years as of March 4, 2010 and we anticipate that the average age will be 19 years at the end of 2010. This modernized asset base is attractive both to our existing customers as well as potential new customers. In addition, our fleet contains several vessels that reflect our focus on specialty products. For example, we are one of a very limited number of companies that can transport molten sulfur.

2009 Developments and Subsequent Events

Recent Acquisitions

Acquisition of Cross Assets. On November 25, 2009, we closed a transaction with Martin Resource Management and Cross Refining & Marketing, Inc. (Cross), a wholly owned subsidiary of Martin Resource Management, in which we acquired certain specialty lubricants processing assets (Assets) from Cross for total consideration of $44.9 million (the Contribution). As consideration for the Contribution, we issued 804,721 of our common units and 889,444 subordinated units to Martin Resource Management at a price of $27.96 and $25.16 per limited partner unit, respectively. The common units will be entitled to receive distributions beginning in February 2010, while the subordinated units will have no distribution rights until the second anniversary of closing of the Contribution. At the end of such second anniversary, the subordinated units will automatically convert to common units, having the same distribution rights as existing common units. In connection with the Contribution, our general partner made a capital contribution of $0.9 million to us in order to maintain its 2% general partner interest in us.

In connection with the closing of the Contribution, we and Martin Resource Management entered into a long-term, fee for services-based Tolling Agreement whereby Martin Resource Management agreed to pay us for the processing of its crude oil into finished products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts.

Under the Tolling Agreement, Martin Resource Management generally agreed to refine a minimum of 6,500 barrels per day of crude oil at the refinery at a price of $4.00 per barrel. Any additional barrels will be refined at a price of $4.28 per barrel. In addition, Martin Resource Management agreed to pay a monthly reservation fee of $1.3 million and a periodic fuel surcharge fee based on certain parameters specified in the Tolling Agreement. All of these fees (other than the fuel surcharge) are subject to escalation annually based upon the greater of 3% or the increase in the

Consumer Price Index for a specified annual period. In addition, every three years, the parties can negotiate an upward or downward adjustment in the fees subject to their mutual agreement. The Tolling Agreement has a 12-year term, subject to certain termination rights specified therein. Martin Resource Management will continue to market and distribute all finished products under the Cross brand name. In addition, Martin Resource Management will continue to own and operate the Cross packaging business.

The acquisition of the Cross assets was considered a transfer of net assets between entities under common control. Accordingly, we are required to revise our financial statements to include activities of the Cross assets as of the date of common control. Our historical financial statements have been recast to reflect the results attributable to the Cross assets as if we owned the Cross assets for all periods presented.

Acquisition of the East Harrison Pipeline System. In December 2009, we acquired, through Prism Gas, from Woodward Partners, Ltd., 6.45 miles of gathering pipeline referred to as the East Harrison Pipeline System for approximately $0.3 million. The system currently transports approximately 500 Mcfd of natural gas under various transport contracts which provide for a minimum monthly fee.

Other Developments

Fourth Amendment to Credit Agreement. On December 21, 2009, we entered into a Fourth Amendment (the Fourth Amendment) to the Second Amended and Restated Credit Agreement (the Credit Agreement), among Martin Operating Partnership L.P., a wholly-owned subsidiary of ours (the Operating Partnership), as borrower, the Partnership and certain of our subsidiaries, as guarantors, the financial institutions parties thereto, as lenders, Royal Bank of Canada, as administrative agent and collateral agent, and the various other agents and parties thereto. The Fourth Amendment modified our existing Credit Agreement to, among other things, (1) increase the total commitments of the lenders thereunder from $325.0 million to approximately $335.7 million, (2) provide that the term loans thereunder will automatically convert to revolving loans on November 10, 2010, such that after giving effect to such conversion the aggregate revolving loan commitments will be approximately $335.7 million, (3) extend the maturity date of amounts outstanding under the Credit Agreement from November 10, 2010 to November 9, 2012, (4) increase the applicable interest rate margin and fees payable to the lenders under the Credit Agreement, (5) amend the financial covenants and certain other covenants under the Credit Agreement, (6) include procedures for additional financial institutions to become revolving lenders, or for any existing revolving lender to increase its revolving commitment, subject to a maximum of $375.0 million for all term loan and revolving loan commitments under the Credit Agreement, (7) eliminate the requirement that we make annual prepayments of the term loans outstanding under the Credit Agreement with excess cash flow, (8) eliminate the swing line facility under the Credit Agreement and (9) limit asset dispositions to $25 million per fiscal year.

Conversion of Subordinated Units Issued at Formation of Partnership. On November 14, 2009, all of our remaining 850,674 outstanding subordinated units, which were issued at the formation of the partnership and owned by Martin Resource Management through a subsidiary, converted into common units on a one-for-one basis following our quarterly cash distribution on such date. All of the 4,253,362 original subordinated units issued to Martin Resource Management have been converted into common units on a one-for-one basis since the formation of the Partnership.

Investment by Martin Resource Management. On November 25, 2009, we closed a private equity sale with Martin Resource Management, under which Martin Resource Management invested $20.0 million in cash in the Partnership in exchange for 714,285 of our common units (the Investment). In connection with the Investment, our general partner made a capital contribution to us of $0.4 million in order to maintain its 2% general partner interest in us. Proceeds from the Investment were used to repay borrowings under our credit facility.

Subsequent Events

Fifth Amendment to Credit Agreement. On January 14, 2010, we entered into a Fifth Amendment (the Fifth Amendment) to the Credit Agreement. The Fifth Amendment modified the Credit Agreement to, among other things, (1) permit us to invest up to $25 million in our joint ventures and (2) limit our ability to make capital expenditures.

Increase Joinder. On February 25, 2010, we entered into a Commitment Increase and Joinder Agreement (the Increase Joinder) with respect to the Credit Agreement. The Increase Joinder increased the maximum amount of borrowings and letters of credit under our credit facility from approximately $335.7 million to $350.0 million.

Acquisition by Waskom of the Harrison Pipeline System. On January 15, 2010, we, through Prism Gas, as 50% owner and the operator of Waskom Gas Processing Company (WGPC), through WGPC s wholly owned subsidiaries Waskom Midstream LLC and Olin Gathering LLC, acquired from Crosstex North Texas Gathering, L.P., a 100% interest in approximately 62 miles of gathering pipeline, two 35 MMcfd dew point control plants and equipment referred to as the Harrison Pipeline System. The Partnership s share of the acquisition cost is approximately $20.0 million.

Quarterly Distribution. On January 21, 2010, we declared a quarterly cash distribution of $0.75 per common unit for the fourth quarter of 2009, or $3.00 per common unit on an annualized basis, to be paid on February 12, 2010 to unitholders of record as of February 5, 2010, reflecting no change over the quarterly distribution paid in respect to the third quarter of 2009.

Public Offering. On February 8, 2010, we completed a public offering of 1,650,000 common units, resulting in net proceeds of $50.6 million, after payment of underwriters discounts, commissions and offering expenses. Our general partner contributed $1.1 million in cash to us in conjunction with the issuance in order to maintain its 2% general partner interest in us. The net proceeds were used to pay down revolving debt under our credit facility.

Business Strategy

The key components of our business strategy are to:

Pursue Organic Growth Projects. We continually evaluate economically attractive organic expansion opportunities in new or existing areas of operation that will allow us to leverage our existing market position, increase the distributable cash flow from our existing assets through improved utilization and efficiency, and leverage our existing customer base. This ability to pursue organic growth opportunities which can be seen in the construction of our Beaumont, Texas sulfur prilling facility, which provides our customers with access to foreign markets.

Pursue Internal Organic Growth by Attracting New Customers and Expanding Services Provided to Existing Customers. We seek to identify and pursue opportunities to expand our customer base across all of our business segments. We generally begin a relationship with a customer by transporting or marketing a limited range of products and services. We believe expanding our customer base and our product and service offerings to existing customers is the most efficient and cost-effective method of achieving organic growth. We believe significant opportunities exist to expand our customer base and provide additional services and products to existing customers.

Pursue Strategic Acquisitions. We monitor the marketplace to identify and pursue accretive acquisitions that expand the services and products we offer or that expand our geographic presence. After acquiring other businesses, we will attempt to utilize our industry knowledge, network of customers and suppliers and strategic asset base to operate the acquired businesses more efficiently and competitively, thereby increasing revenues and cash flow. Our acquisitions have tended to focus on targets with which we are familiar through historical business relations (as suppliers or customers). This allows us to seek out operations that we believe will be strengthened by our management team and existing operations. An example of our strategy is the acquisition of our Prism subsidiary in 2005 which complemented and expanded our NGL distribution capabilities. We believe that our diversified base of operations provides multiple platforms for strategic growth through acquisitions.

Pursue Strategic Alliances. Many of our larger customers are establishing strategic alliances with midstream service providers such as us to address logistical and transportation problems or achieve operational synergies. These strategic alliances are typically structured differently than our regular commercial relationships, with the goal that such alliances would expand our business relationships with our customers and suppliers. Due to our diversified portfolio of assets and the comprehensive solutions provided thereby, we believe we are an attractive partner for the pursuit of strategic alliances and we intend to pursue strategic alliances with customers in the future.

Expand Geographically. We work to identify and assess other attractive geographic markets for our services and products based on the market dynamics and the cost associated with penetration of such markets. We typically enter a new market through an acquisition or by securing at least one major customer or supplier and then dedicating or purchasing assets for operation in the new market. Once in a new territory, we seek to expand our operations within this new territory both by targeting new customers and by selling additional services and products to our original customers in the territory. Our focus on geographic expansion can be seen in the 2005 acquisition of our Bay Sulfur assets in Stockton, California which allowed for us to establish our presence in the West Coast sulfur markets.

Maintain Financial Strength and Flexibility. We continue to seek additional long-term, fee-based contracts to further minimize our exposure to commodity price fluctuations and sustain our long-term customer relationships. We continue to hedge a significant portion of our remaining exposure to commodity price fluctuations. In addition, we intend to continue to maintain a strong balance sheet by financing growth through a combination of long-term debt and equity, with the goal of having flexibility to fund future organic growth and strategic acquisitions through opportunistically accessing the capital markets.

Competitive Strengths

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

Asset Base and Integrated Distribution Network. We operate a diversified asset base that, together with the services provided by Martin Resource Management, enables us to offer our customers an integrated distribution network consisting of transportation, terminalling and storage and midstream logistical services while minimizing our dependence on the availability and pricing of services provided by third parties. Our integrated distribution network enables us to provide customers with a complementary portfolio of transportation, terminalling, distribution and other midstream services for petroleum products and by-products. We believe our customers value the efficiency of using this complementary portfolio as opposed to contracting with a varying number of other service providers to obtain the same services.

Strategically Located Assets. We believe we are one of the largest providers of shore bases and one of the largest lubricant distributors and marketers in the United States Gulf Coast region. In addition, we are one of the largest operators of marine service terminals in the United States Gulf Coast region providing broad geographic coverage and distribution capability of our products and comprehensive services to our customers. Our natural gas gathering and processing assets are focused in areas that have continued to experience high levels of drilling activity and natural gas production. In addition, our natural gas services business is well positioned in the East Texas area with the only full fractionation facilities serving this area.

Specialized Transportation Equipment and Storage Facilities. We have the assets and expertise to handle and transport certain petroleum products and by-products with unique requirements for transportation and storage. For example, we own facilities and resources to transport molten sulfur and asphalt, which must be maintained at temperatures between approximately 275 and 350 degrees Fahrenheit to remain in liquid form. We believe these capabilities allow us to enhance relationships with our customers by offering them services to handle their unique product requirements. These specialized assets, and the comprehensive solutions provided thereby, provide us with the flexibility to require minimum fee contracts with certain of our customers that require these specialized services.

Ability for Growth Across Multiple Segments. Our distinct lines of business allow us to allocate capital to the most promising growth opportunities based on current and anticipated market conditions. We believe that with our Prism Gas assets, we have opportunities for organic growth in our natural gas gathering and processing operations through increasing fractionation capacity, pipeline expansions, new pipeline construction and bolt-on acquisitions. We believe Prism Gas assets are well situated in the Haynesville Shale, which is one of the four largest U.S. shale deposits, and anticipate growth opportunities as these deposits are further developed. Additionally, we believe we could significantly increase our sulfur processing capacity with minimal capital investment.

Experienced Management Team and Operational Expertise. Members of our executive management team and the heads of our principal business lines have, on average, more than 30 years of experience in the industries in which we operate. Further, these individuals have been employed by Martin Resource Management, on average, for more than 18 years. Our management team has a successful track record of creating internal growth and completing acquisitions. We believe our management team s experience and familiarity with our industry and businesses are important assets that assist us in implementing our business strategies.

Strong Industry Reputation and Established Relationships with Suppliers and Customers. We believe we have established a reputation in our industry as a reliable and cost-effective supplier of services to our customers and have a track record of safe, efficient operation of our facilities. Our management has also established long-term relationships with many of our suppliers and customers. We believe we benefit from our management s reputation and track record, and from these long-term relationships.

Financial Strength and Flexibility. We have historically financed our operations with a combination of debt and equity while maintaining a modest leverage profile, even in challenging business environments. Since our initial public offering, we have accessed the public equity markets 4 times for $241.0 million in total net proceeds, including capital contributions from our general partner. We have also occasionally issued units to Martin Resource Management in exchange for cash or assets.

Fee-Based Contracts and Active Commodity Risk Management. We generate a majority of our cash flow from fee-based contracts with our customers. In addition, a significant portion of these fee-based contracts consist of reservation charges or minimum fee arrangements, which reduce the volatility of a portion of cash flows to volume fluctuations. We seek to further minimize our exposure to commodity price fluctuations through swaps for crude oil, natural gas and natural gasoline. As of December 31, 2009, Prism Gas has hedged approximately 50% of its commodity risk by volume for 2010.

Terminalling and Storage Segment

Industry Overview. The United States petroleum distribution system moves petroleum products and by-products from oil refinery and natural gas processing facilities to end users. This distribution system is comprised of a network of terminals, storage facilities, pipelines, tankers, barges, rail cars and trucks. Terminals play a key role in moving these products throughout the distribution system by providing storage, blending and other ancillary services.

In the 1990s, the petroleum industry entered a period of consolidation. Refiners and marketers developed large-scale, cost-efficient operations resulting in several refinery acquisitions, combinations, alliances and joint ventures. This consolidation resulted in major oil companies integrating the various components of their businesses, including terminalling and storage. However, major integrated oil companies later concentrated their focus and resources on their core competencies of exploration, production, refining and retail marketing and examined ways to lower their distribution costs. Additionally, the Federal Trade Commission required some divestitures of terminal assets in markets in which merged companies, alliances and joint ventures were regarded as having excessive market power. As a result of these factors, oil and gas companies began to increasingly rely on third parties such as us to perform many terminalling and storage services.

Although many large energy and chemical companies own terminalling and storage facilities, these companies also use third-party terminalling and storage services. Major energy and chemical companies typically have a strong demand for terminals owned by independent operators when such terminals are strategically located at or near key transportation links, such as deep-water ports. Major energy and chemical companies also need independent terminal storage when their owned storage facilities are inadequate, either because of lack of capacity, the nature of the stored material or specialized handling requirements.

The Gulf Coast region is a major hub for petroleum refining. Approximately two-thirds of United States refining capacity expansion in the 1990s occurred in this region. Growth in the refining and natural gas processing industries has increased the volume of petroleum products and by-products that are transported within the Gulf Coast region, which consequently has increased the need for terminalling and storage services.

The marine and offshore oil and gas exploration and production industries use terminal facilities in the Gulf Coast region as shore bases that provide them logistical support services as well as provide a broad range of products, including fuel oil, lubricants, chemicals and supplies. The demand for these types of terminals, services and products is driven primarily by offshore exploration, development and production in the Gulf of Mexico. Offshore activity is greatly influenced by current and projected prices of oil and natural gas.

Marine Shore Based Terminals. We own or operate 12 marine shore based terminals along the Gulf Coast from Venice, Louisiana to Corpus Christi, Texas. Our terminal assets are located at strategic distribution points for the products we handle and are in close proximity to our customers.

We are one of the largest operators of marine shore based terminals in the Gulf Coast region. These terminals are used to distribute and market lubricants and the full service terminals also provide shore bases for companies that are operating in the offshore exploration and production industry. Customers are primarily oil and gas exploration and production companies and oilfield service companies, such as drilling fluid companies, marine transportation companies and offshore construction companies. Shore bases typically provide logistical support, including the storing and handling of tubular goods, loading and unloading bulk materials, providing facilities from which major and independent oil companies can communicate with and control offshore operations and leasing dockside facilities to companies which provide complementary products and services such as drilling fluids and cementing services. We generate revenues from our terminals that have shore bases by fees that we charge our customers under land rental contracts for the use of our terminal facility for these shore bases. These contracts generally provide us a fixed land rental fee and additional rental fees that are determined based on a percentage of the sales value of the products and services delivered from the shore base. In addition, Martin Resource Management, through contractual arrangements, pays us for terminalling and storage of fuel oil and lubricants at these terminal facilities.

Our 12 marine shore based terminals are divided into two classes of terminals: (i) full service terminals and (ii) fuel and lubricant terminals.

Full Service Terminals. We own or operate eight full service terminals. These terminal facilities provide logistical support services and provide storage and handling services for fuel oil and lubricants. The significant difference between our full service terminals and our fuel and lubricant terminals is that our full service terminals generate additional revenues by providing shore bases to support our customer s operating activities related to the offshore exploration and production industry. One typical use for our shore bases is for drilling fluids manufacturers to manufacture and sell drilling fluids to the offshore drilling industry. Offshore drilling companies may also set up service facilities at these terminals to support their offshore operations. Customers of our full service terminals are primarily oil and gas exploration and production companies, and oilfield service companies such as drilling fluids companies, marine transportation companies and offshore construction companies.

The following is a summary description of our eight full service terminals:

Terminal	Location	Acres	Tanks	Aggregate Capacity
Pelican Island	Galveston, Texas	51.3	16	87,200 Bbls.
Harbor Island(1)	Harbor Island, Texas	25.5	12	32,500 Bbls.
Freeport	Freeport, Texas	17.8	1	8,300 Bbls.
Port O Connor(2)	Port O Connor, Texas	22.8	8	7,000 Bbls.
Sabine Pass(3)	Sabine Pass, Texas	23.1	11	17,000 Bbls.
Cameron East (4)	Cameron, Louisiana	34.3	12	34,000 Bbls.
Cameron West (5)	Cameron, Louisiana	16.9	5	16,500 Bbls.
Venice (6)	Venice, Louisiana	2.8	2	15,000 Bbls.

(1) A portion of this terminal is located on land owned by a third party and leased under a lease that expires in January 2015.

(2) This terminal is located on land owned by a third party and leased under a lease that expires in March 2014.

(3)

A portion of this terminal is located on land owned by a third party and leased under a lease that expires in September 2036.

(4) This terminal is located on land owned by third parties and leased under a lease that expires in March 2012 and can be extended by us through March 2022.

(5) This terminal is located on land owned by a third party and leased under a lease that expires in February 2013.

(6) This terminal is located on land owned by a third party and leased under a sublease agreement that expires in August 2012.

Fuel and Lubricant Terminals. We own or operate four lubricant and fuel oil terminals located in the Gulf Coast region that provide storage and handling services for lubricants and fuel oil.

The following is a summary description of our fuel and lubricant terminals:

Terminal	Location	Tanks	Aggregate Capacity
Amelia	Amelia, Louisiana	17	14,900 Bbls.
Berwick(1)	Berwick, Louisiana	2	25,000 Bbls.
Intracoastal City(2)(3)	Intracoastal City, Louisiana	16	39,000 Bbls.
Fourchon(4)	Fourchon, Louisiana	11	80,000 Bbls.

(1) This terminal is located on land owned by third parties and leased

under a lease that expires in September 2012 and can be extended by us through September 2017.

(2) A portion of this terminal is located on land owned by a third party at which we throughput fuel oil pursuant to an agreement that expired in January 2010 and is automatically renewed on a monthly basis.

(3) A portion of this terminal is located on land owned by third parties and leased under a lease that expires in April 2014.

(4) This terminal is located on land owned by a third party at which we throughput lubricants and fuel oil pursuant to an agreement that expires in January 2017.

Specialty Petroleum Terminals. We own or operate 11 terminal facilities providing storage and handling services for some or all of the following: anhydrous ammonia, asphalt, sulfur, sulfuric acid, fuel oil, crude oil and other petroleum products and by-products. Our specialty terminals have an aggregate storage capacity of approximately 2.24 million barrels. Each of these terminals has storage capacity for petroleum products and by-products and has assets to handle products transported by vessel, barge and truck. The location and composition of our terminals are structured to complement our other businesses and reflect our strategy to provide a broad range of integrated services in the handling and transportation of petroleum products and by-products. We developed our terminalling and storage assets by acquiring existing terminalling and storage facilities and then customizing and upgrading these facilities as needed to integrate the facilities into our petroleum product and by-product transportation network and to more effectively service customers. We expect to continue to acquire facilities, streamline their operations and customize and upgrade them as part of our growth strategy. We also continually evaluate opportunities to add services and increase access to our terminals to attract more customers and create additional revenues.

Our Tampa terminal is located on approximately 10 acres of land owned by the Tampa Port Authority that was leased to us under a 10-year lease that commenced on December 16, 2006 with two five-year options. Our Stanolind terminal is located on approximately 11 acres of land owned by us located on the Neches River in Beaumont. Our Neches terminal is a deep water marine terminal located near Beaumont, Texas on approximately 50 acres of land owned by us. Our Ouachita County terminal is located on approximately six acres of land owned by us on the Ouachita River in southern Arkansas. Our Corpus Christi terminal is located on approximately 25 acres of land owned by us and has access to the waterfront via marine docks owned by the Port of Corpus Christi.

At our Tampa, Neches, Stanolind and Corpus Christi terminals, our customers are primarily large oil refining and natural gas processing companies. We charge either a fixed monthly fee or a throughput fee for the use of our facilities, based on the capacity of the applicable tank. We conduct a substantial portion of our terminalling and storage operations under long-term contracts, which enhances the stability and predictability of our operations and cash flow. We attempt to balance our short-term and long-term terminalling contracts in order to allow us to maintain a consistent level of cash flow while maintaining flexibility to earn higher storage revenues when demand for storage space increases. In addition, a significant portion of the contracts for our specialty terminals provide for minimum fee arrangements that are not based on the volume handled. At our Ouachita County terminal, Cross Oil Refining & Marketing, Inc., a related party owned by Martin Resource Management, operates the terminal under a long-term terminalling agreement whereby we receive a throughput fee.

In Channelview, Texas, we operate an inland terminal used for lubricant blending, storage, packaging and distribution. This terminal is used as our central hub for lubricant distribution where we receive, package and ship our lubricants to our terminals or directly to customers.

In Smackover, Arkansas, we own a refining terminal where we process crude oil into finished products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts. This process is dedicated to an affiliate of Martin Resource Management through a long-term tolling agreement based upon throughput rates and a monthly reservation fee.

In Houston, Texas, we own an asphalt terminal whose use is dedicated to an affiliate of Martin Resource Management through a terminalling service agreement based on throughput rates.

In Port Neches, Texas, we own an asphalt terminal whose use is dedicated to an affiliate of Martin Resource Management through a terminalling service agreement based upon throughput rates.

In Omaha, Nebraska, we own an asphalt terminal whose use is dedicated to an affiliate of Martin Resource Management through a terminalling service agreement based on throughput rates.

In Beaumont, Texas we own Spindletop Terminal where we receive natural gasoline via pipeline and then ship the product to our customers via other pipelines to which the facility is connected. Our fees for the use of this facility are based on the number of barrels shipped from the terminal.

We also continually evaluate opportunities to add services and increase access to our terminals to attract more customers and create additional revenues. The following is a summary description of our specialty marine terminals:

Table of Contents

Terminal	**Location**	**Tanks**	**Aggregate Capacity**	**Products**	**Description**
Tampa(1)	Tampa, Florida	8	779,000 Bbls.	Asphalt, sulfur and fuel oil	Marine terminal, loading/unloading for vessels, barges railcars and trucks
Stanolind	Beaumont, Texas	8	555,000 Bbls.	Asphalt, crude oil, sulfur, sulfuric acid and fuel oil	Marine terminal, marine dock for loading/unloading of vessels, barges, railcars and trucks
Neches	Beaumont, Texas	7	500,400 Bbls.	Ammonia, asphalt, fuel oil, crude oil and sulfur-based fertilizer	Marine terminal, loading/unloading for vessels, barges, railcars and trucks
Ouachita County	Ouachita County, Arkansas	2	77,500 Bbls.	Crude oil	Marine terminal, loading/unloading for barges and trucks
Corpus Christi	Corpus Christi, Texas	4	330,000 Bbls.	Fuel oil and diesel	Marine Terminal, loading/unloading barges and vessels and unloading trucks

Terminal	**Location**	**Aggregate Capacity**	**Products**	**Description**
Channelview	Houston, Texas	34,000 sq. ft. Warehouse/29,000 Bbls	Lubricants	Lubricants blending and truck loading/unloading
Cross Refining	Smackover, Arkansas	7,500 Bbls per day	Naphthenic lubricants, Distillates, Asphalt	Crude refining facility
South Houston Asphalt	Houston, Texas	71,000 Bbls	Asphalt	Asphalt Processing and storage
Port Neches Asphalt	Port Neches, Texas	31,250 Bbls	Asphalt	Asphalt Processing and storage
Omaha Asphalt	Omaha, Nebraska	114,225 Bbls	Asphalt	Asphalt Processing and storage
Spindletop	Beaumont, Texas	90,000 Bbls	Natural Gasoline	Pipeline receipts and shipments

(1) This terminal is located on land owned by the

Tampa Port Authority that was leased to us under a 10-year lease that expires in December 2016 with two five-year extension options.

Competition. We compete with independent terminal operators and major energy and chemical companies that own their own terminalling and storage facilities. We believe many customers prefer to contract with independent terminal operators rather than terminal operators owned by integrated energy and chemical companies that may have refining or marketing interests that compete with the customers.

Independent terminal owners generally compete on the basis of the location and versatility of terminals, service and price. A favorably-located terminal has access to various cost effective transportation modes, both to and from the terminal, such as waterways, railroads, roadways and pipelines. Terminal versatility depends upon the operator s ability to handle diverse products, some of which have complex or specialized handling and storage requirements. The service function of a terminal includes, among other things, the safe storage of product at specified temperature, moisture and other conditions, and receiving and delivering product to and from the terminal. All of these services must be in compliance with applicable environmental and other regulations.

Table of Contents

We believe we successfully compete for terminal customers because of the strategic location of our terminals along the Gulf Coast, our integrated transportation services, our reputation, the prices we charge for our services and the quality and versatility of our services. Additionally, while some companies have significantly more terminalling and storage capacity than us, not all terminalling and storage facilities located in the markets we serve are equipped to properly handle specialty products such as asphalt, sulfur, anhydrous ammonia and sulfuric acid. As a result, our facilities typically command higher terminal fees when compared to fees charged for terminalling and storage of other petroleum products.

The principal competitive factors affecting our terminals which provide lubricant distribution and marketing, as well as shore bases at certain terminals, are the locations of the facilities, availability of competing logistical support services and the experience of personnel and dependability of service. The distribution and marketing of our lubricant products is brand sensitive and we encounter brand loyalty competition. Shore base rental contracts are generally long-term contracts and provide more protection from competition. Our primary competitors for both lubricants and shore bases include several independent operations as well as major companies that maintain their own similarly equipped marine terminals, shore bases and lubricant supply sources.

Natural Gas Services Segment

NGL Industry Overview. NGLs are produced through natural gas processing. They are also a by-product of crude oil refining. NGL consists of hydrocarbons that are vapors at atmospheric temperatures and pressures but change to liquid phase under pressure. NGLs include ethane, propane, normal butane, iso butane and natural gasoline.

Ethane is almost entirely used as a petrochemical feedstock in the production of ethylene and propylene. Propane is used as a petrochemical feedstock in the production of ethylene and propylene, as a fuel for heating, for industrial applications, as motor fuel and as a refrigerant. Normal butane is used as a petrochemical feedstock, as a blend stock for motor gasoline and as a component in aerosol propellants. Normal butane can also be made into iso butane through isomerization. Iso butane is used in the production of motor gasoline, alkylation or MTBE and as a component in aerosol propellants. Natural gasoline is used as a component of motor gasoline and as a petrochemical feedstock.

NGL Facilities. We purchase NGLs primarily from natural gas processors and, to a lesser extent, major domestic oil refiners. We transport NGLs using Martin Resource Management s land transportation fleet or by contracting with common carriers, owner-operators and railroad tank cars. We typically enter into annual contracts with independent retail propane distributors to deliver their estimated annual volume requirements based on prevailing market prices. We believe dependable delivery is very important to these customers and in some cases may be more important than price. We ensure adequate supply of NGLs through:

storage of NGLs purchased in off-peak months;

efficient use of the transportation fleet of vehicles owned by Martin Resource Management; and

product management expertise to obtain supplies when needed.

The following is a summary description of our owned and leased NGL facilities:

NGL Facility	Location	Capacity	Description
Wholesale terminals	Arcadia, Louisiana(1)	2,000,000 barrels	Underground storage
	Hattiesburg, Mississippi(2)	100,000 barrels	Underground storage
	Mt. Belvieu, Texas(3)(2)	40,000 barrels	Underground storage
Retail terminals	Kilgore, Texas	90,000 gallons	Retail propane distribution
	Longview, Texas	30,000 gallons	Retail propane distribution
	Henderson, Texas	12,000 gallons	

Retail propane distribution

(1) We lease our underground storage at Arcadia, Louisiana from Martin Resource Management under a three-year product storage agreement, which is renewable on a yearly basis thereafter subject to a re-determination of the lease rate for each subsequent year.

(2) We lease our underground storage at Hattiesburg, Mississippi and Mont Belvieu, Texas from third parties under one-year lease agreements, which have been renewed annually for more than 20 years.

(3) In addition, under a throughput agreement, we are entitled to the access and use of a truck loading and unloading and pipeline distribution terminal owned

by Enterprise
Products and
located at Mont
Belvieu, Texas.
Effective

each January 1, this agreement automatically renews for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 30 days prior to the expiration of the then-applicable term. This terminal facility has a storage capacity of 8,000 barrels.

Our NGL customers that utilize these assets consist of retail propane distributors, industrial processors and refiners. For the year ended December 31, 2009, we sold approximately 32% of our NGL volume to independent retail propane distributors located in Texas and the southeastern United States and approximately 68% of our NGL volume to refiners and industrial processors.

NGL Competition. We compete with large integrated NGL producers and marketers, as well as small local independent marketers. NGLs compete primarily with natural gas, electricity and fuel oil as an energy source, principally on the basis of price, availability and portability.

NGL Seasonality. The level of NGL supply and demand is subject to changes in domestic production, weather, inventory levels and other factors. While production is not seasonal, residential and wholesale demand is highly seasonal. This imbalance causes increases in inventories during summer months when consumption is low and decreases in inventories during winter months when consumption is high. If inventories are low at the start of the winter, higher prices are more likely to occur during the winter. Additionally, abnormally cold weather can put extra upward pressure on prices during the winter because there are less readily available sources of additional supply except for imports which are less accessible and may take several weeks to arrive. General economic conditions and inventory levels have a greater impact on industrial and refinery use of NGLs than the weather.

We generally maintain consistent margins in our natural gas services business because we attempt to pass increases and decreases in the cost of NGLs directly to our customers. We generally try to coordinate our sales and purchases of NGLs based on the same daily price index of NGLs in order to decrease the impact of NGL price volatility on our profitability.

Prism Gas. Prism Gas is operated and reported as part of our natural gas services business segment, which has been expanded to include natural gas gathering and processing as well as the NGL services business described herein.

Prism Gas has ownership interests in over 615 miles of gathering pipelines located in the natural gas producing regions of North Central Texas and East Texas, Northwest Louisiana, the Texas Gulf Coast and offshore Texas and federal waters in the Gulf of Mexico as well as a 285 MMcfd natural gas processing plant located in East Texas. The underlying assets are in two operating areas:

East Texas and North Central Texas

The East Texas and North Central Texas area assets consist of the Waskom Processing Plant, Woodlawn, the McLeod Gathering System, the Hallsville Gathering System, the Marshall Line, Bosque County Pipeline (BCP), the East Texas

Gathering System and the Prism Liquids Pipeline.

Waskom Processing Plant The Waskom Processing Plant, located in Harrison County in East Texas, currently has 285 MMcfd of processing capacity with full fractionation facilities. Expansions to the processing plant were completed in March and June of 2007, July of 2008 and June of 2009 increasing the capacity from 150 MMcfd to 285 MMcfd. In June 2009, the Waskom fractionator was expanded to a capacity of 14,500 barrels per day (bpd). For the years ended December 31, 2009 and 2008, inlet throughput and NGL fractionation averaged approximately 243 and 257 MMcfd and 10,034 and 10,542 bpd, respectively. Prism Gas owns an unconsolidated 50% operating interest in the Waskom Processing Plant with CenterPoint Energy Gas Processing, Inc. owning the remaining 50% non-operating interest. We reflect the results of operations from this facility using the equity method of accounting.

Harrison Pipeline System In January of 2010, as 50% owner and operator of Waskom Gas Processing Company, through Waskom Gas Processing Company s wholly owned subsidiaries Waskom Midstream LLC and Olin Gathering LLC, we acquired the Harrison Pipeline System, located in Harrison County in East Texas. The system consists of approximately 62 miles of gathering pipeline, two 35 MMcfd dew point control plants and various equipment. We will reflect the results of operations from this system using the equity method of accounting.

Woodlawn Plant and Gathering System On May 2, 2007, we, through our subsidiary Prism Gas, acquired 100% of the outstanding stock of Woodlawn. The results of Woodlawn s operations have been included in our consolidated financial statements beginning May 2, 2007. Woodlawn is a natural gas gathering and processing company which owns integrated gathering and processing assets in East Texas. Woodlawn s system consists of approximately 142 miles of natural gas gathering pipe, approximately 33 miles of condensate transport pipe and a 30 MMcfd processing plant. Prism Gas acquired a nine-mile pipeline from a Woodlawn related party that delivers residue gas from the Woodlawn plant to the Texas Eastern Transmission pipeline system.

McLeod Gathering System The McLeod Gathering System, located in East Texas and Northwest Louisiana, is a low-pressure gathering system connected to the Waskom Processing Plant providing processing and blending services for natural gas, with high nitrogen and high liquids content gathered by the system. For the years ended December 31, 2009 and 2008, the McLeod Gathering System gathered approximately 4 and 5 MMcfd of natural gas, respectively. Prism Gas owns a consolidated 100% interest in this system.

East Harrison Gathering System In December of 2009, we acquired 6.45 miles of gathering pipeline referred to as the East Harrison Pipeline System. For December 2009, the system transported 514 Mcfd. Prism Gas owns a consolidated 100% interest in this system.

Hallsville Gathering System The Hallsville Gathering System, which Prism Gas constructed in 2006 in Harrison County, Texas, provides gathering and centralized compression for producers in the Oak Hill Field of East Texas. The system operates at low pressure and redelivers gas to two interstate and three intrastate markets via the Oakhill Gathering System. For the years ended December 31, 2009 and 2008, the Hallsville Gathering System gathered approximately 18 and 21 MMcfd of natural gas, respectively. Prism Gas owns a consolidated 100% interest in this system.

The Marshall Line The Marshall Line is a 10 gathering line that Prism Gas began leasing from Kinder Morgan Texas in 2006. It is located in Harrison County, Texas. The Marshall Line gathers gas at intermediate pressure and feeds the Waskom Processing Plant. Prism Gas owns a consolidated 100% interest in the lease.

Bosque County Pipeline The Bosque County Pipeline, gathers gas in four North Central Texas counties centered around Bosque County. Prism Gas owned an unconsolidated 20% non-operating interest in a partnership that owned the lease rights to the assets of the Bosque County Pipeline, with Panther Pipeline Ltd. owning a 42.5% operating interest and two unrelated parties owning the remaining 37.5% interest. The lease contract terminated in June 2009.

East Texas Gathering System The East Texas Gathering System, located in Panola County, Texas, is comprised of gathering systems built to gather gas produced in this area to market outlets. Prism Gas owns a consolidated 100% interest in these systems.

The natural gas supply for the Waskom Processing Plant, the Woodlawn Plant and Gathering System, the McLeod Gathering System, the Hallsville Gathering System, the Marshall Line and the East Texas Gathering System is derived primarily from natural gas wells located in the Cotton Valley and Haynesville formations of East Texas and Northwest Louisiana.

The Cotton Valley formation is one of the largest tight gas plays in the U.S. and extends over fourteen counties in East Texas and into Northwest Louisiana. Prism Gas East Texas Operating Area includes assets that provide gathering and processing services to producers in Cass, Gregg, Harrison, Panola and Rusk Counties, Texas and Caddo Parish, Louisiana. The total number of wells permitted in Prism Gas East Texas Operating Area was 419 and 2,323 in calendar years 2009 and 2008, respectively. These annual permit numbers include 200 and 261 permits for horizontal wells in 2009 and 2008, respectively. Improved technology and drilling applications have enhanced the economics of drilling in the Cotton Valley formation; however, in 2009 the economic benefit was more than offset by lower prices and as a result drilling activity declined. We anticipate that drilling activity in 2010 will begin to recover from the low levels of 2009.

Table of Contents