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American Midstream Partners, LP  
Form 10-Q  
May 11, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended  
March 31, 2015

or

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

For the transition period from      to  
Commission File Number: 001-35257

AMERICAN MIDSTREAM PARTNERS, LP  
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

27-0855785

(I.R.S. Employer  
Identification No.)

1400 16th Street, Suite 310

Denver, CO

(Address of principal executive offices)

(720) 457-6060

(Registrant's telephone number, including area code)

80202

(Zip code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

There were 22,757,477 common units, 7,052,207 Series A Units and 1,277,772 Series B Units of American Midstream Partners, LP outstanding as of May 8, 2015. Our common units trade on the New York Stock Exchange under the ticker symbol "AMID."

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Glossary of Terms

As generally used in the energy industry and in this Quarterly Report on Form 10-Q (the “Quarterly Report”), the identified terms have the following meanings:

Bbl      Barrels: 42 U.S. gallons measured at 60 degrees Fahrenheit.

Bcf      Billion cubic feet.

Btu      British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

Condensate      Liquid hydrocarbons present in casinghead gas that condense within the gathering system and are removed prior to delivery to the gas plant. This product is generally sold on terms more closely tied to crude oil pricing.

/d      Per day.

FERC      Federal Energy Regulatory Commission.

Fractionation      Process by which natural gas liquids are separated into individual components.

GAAP      Accounting principles generally accepted in the United States of America.

Gal      Gallons.

MMBtu      Million British thermal units.

Mcf      Thousand cubic feet.

MMcf      Million cubic feet.

Mgal      One thousand gallons.

NGL or NGLs      Natural gas liquid(s): The combination of ethane, propane, normal butane, isobutane and natural gasoline that, when removed from natural gas, become liquid under various levels of higher pressure and lower temperature.

Throughput      The volume of natural gas transported or passing through a pipeline, plant, terminal or other facility during a particular period.

As used in this Quarterly Report, unless the context otherwise requires, “we,” “us,” “our,” the “Partnership” and similar terms refer to American Midstream Partners, LP, together with its consolidated subsidiaries.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## American Midstream Partners, LP and Subsidiaries

## Condensed Consolidated Balance Sheets

(Unaudited, in thousands)

	March 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$—	\$499
Accounts receivable	8,341	4,924
Unbilled revenue	21,104	24,619
Risk management assets	455	688
Other current assets	8,181	15,554
Current deferred tax assets	5,382	3,086
Total current assets	43,463	49,370
Property, plant and equipment, net	606,751	582,182
Goodwill	142,053	142,236
Intangible assets, net	104,692	106,306
Investment in unconsolidated affiliates	21,419	22,252
Other assets, net	14,267	14,298
Total assets	\$932,645	\$916,644
Liabilities and Partners' Capital		
Current liabilities		
Accounts payable	\$18,830	\$20,326
Accrued gas purchases	11,278	14,326
Accrued expenses and other current liabilities	21,284	25,800
Current portion of long-term debt	1,833	2,908
Risk management liabilities	168	215
Total current liabilities	53,393	63,575
Asset retirement obligations	34,762	34,645
Other liabilities	212	126
Long-term debt	386,850	372,950
Deferred tax liabilities	10,652	8,199
Total liabilities	485,869	479,495
Commitments and contingencies (See Note 16)		
Convertible preferred units		
Series A convertible preferred units (7,052 thousand and 5,745 thousand units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively)	131,376	107,965
Equity and partners' capital		
General Partner Interests (392 thousand units issued and outstanding as of March 31, 2015 and December 31, 2014)	(4,528	) (2,450
Limited Partner Interests (22,754 thousand and 22,670 thousand units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively)	282,603	294,695
Series B convertible units (1,278 thousand and 1,255 units issued and outstanding as of March 31, 2015 and December 31, 2014, respectively)	32,640	32,220
Accumulated other comprehensive income (loss)	(9	) 2
Total partners' capital	310,706	324,467



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Noncontrolling interests	4,694	4,717
Total equity and partners' capital	315,400	329,184
Total liabilities, equity and partners' capital	\$932,645	\$916,644

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

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American Midstream Partners, LP and Subsidiaries  
Condensed Consolidated Statements of Operations  
(Unaudited, in thousands, except for per unit amounts)

	Three months ended March 31,	
	2015	2014
Revenue	\$64,462	\$80,368
Gain (loss) on commodity derivatives, net	147	(130 )
Total revenue	64,609	80,238
Operating expenses:		
Purchases of natural gas, NGLs and condensate	28,978	55,221
Direct operating expenses	13,867	8,961
Selling, general and administrative expenses	6,935	5,593
Equity compensation expense	1,698	360
Depreciation, amortization and accretion expense	9,689	7,632
Total operating expenses	61,167	77,767
Gain (loss) on sale of assets, net	(8 )	(21 )
Operating income (loss)	3,434	2,450
Other income (expense):		
Interest expense	(2,610 )	(1,903 )
Earnings in unconsolidated affiliates	167	—
Net income (loss) before income tax (expense) benefit	991	547
Income tax (expense) benefit	(156 )	11
Net income (loss) from continuing operations	835	558
Income (loss) from discontinued operations, net of tax	5	(50 )
Net income (loss)	840	508
Net income (loss) attributable to noncontrolling interests	14	108
Net income (loss) attributable to the Partnership	\$826	\$400
General Partner's Interest in net income (loss)	\$10	\$7
Limited Partners' Interest in net income (loss)	\$816	\$393
Distribution declared per common unit (a)	\$0.4725	\$0.4525
Limited partners' net income (loss) per common unit (See Note 4 and Note 13):		
Basic and diluted:		
Income (loss) from continuing operations	\$(0.19 )	\$(0.32 )
Income (loss) from discontinued operations	—	—
Net income (loss)	\$(0.19 )	\$(0.32 )
Weighted average number of common units outstanding:		
Basic and diluted	22,703	9,846

(a) Declared and paid during the three months ended March 31, 2015 and 2014 related to prior quarter earnings.

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

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American Midstream Partners, LP and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited, in thousands)

	Three months ended March 31,	
	2015	2014
Net income (loss)	\$840	\$508
Unrealized gain (loss) on postretirement benefit plan assets and liabilities	(11	) 36
Comprehensive income (loss)	829	544
Less: Comprehensive income (loss) attributable to noncontrolling interests	14	108
Comprehensive income (loss) attributable to Partnership	\$815	\$436

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

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American Midstream Partners, LP and Subsidiaries  
Condensed Consolidated Statements of Changes in Partners' Capital  
and Noncontrolling Interest  
(Unaudited, in thousands)

	General Partner Interest	Limited Partner Interest	Series B Convertible Units	Accumulated Other Comprehensive Income	Total Partners' Capital	Noncontrolling Interest	
Balances at December 31, 2013	\$2,696	\$71,039	\$—	\$104	\$73,839	\$4,628	
Net income (loss)	7	393	—	—	400	108	
Issuance of common units to public, net of offering costs	—	86,926	—	—	86,926	—	
Issuance of Series B units	—	—	30,000	—	30,000	—	
Unitholder contributions	1,276	—	—	—	1,276	—	
Unitholder distributions	(524	) (8,037	) —	—	(8,561	) —	
Issuance and exercise of warrant	(7,164	) 7,164	—	—	—	—	
Net distributions to noncontrolling interests	—	—	—	—	—	(98	)
Acquisitions of noncontrolling interests	—	21	—	—	21	(29	)
LTIP vesting	(366	) 494	—	—	128	—	
Tax netting repurchase	—	(90	) —	—	(90	) —	
Equity compensation expense	328	—	—	—	328	—	
Other comprehensive loss	—	—	—	36	36	—	
Balances at March 31, 2014	\$(3,747	) \$157,910	\$30,000	\$140	\$184,303	\$4,609	
Balances at December 31, 2014	\$(2,450	) \$294,695	\$32,220	\$2	\$324,467	\$4,717	
Net income (loss)	10	816	—	—	826	14	
Issuance of Series B units	—	—	420	—	420	—	
Unitholder contributions	23	—	—	—	23	—	
Unitholder distributions	(1,495	) (14,496	) —	—	(15,991	) —	
Net distributions to noncontrolling interests	—	—	—	—	—	(37	)
LTIP vesting	(2,117	) 2,313	—	—	196	—	
LTIP tax netting unit repurchase	—	(725	) —	—	(725	) —	
Equity based compensation	1,501	—	—	—	1,501	—	
Other comprehensive income	—	—	—	(11	) (11	) —	
Balances at March 31, 2015	\$(4,528	) \$282,603	\$32,640	\$(9	) \$310,706	\$4,694	

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



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American Midstream Partners, LP and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited, in thousands)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities		
Net income (loss)	\$840	\$508
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion expense	9,689	7,632
Amortization of deferred financing costs	338	428
Amortization of weather derivative premium	241	284
Unrealized (gain) loss on commodity derivatives, net	(55	) 39
Non-cash compensation	1,720	360
Postretirement expense (benefit)	8	12
(Gain) loss on sale of assets, net	(8	) —
Deferred tax expense (benefit)	158	(26
		)
Changes in operating assets and liabilities, net of effects of assets acquired and liabilities assumed:		
Accounts receivable	(3,414	) (1,041
		)
Unbilled revenue	3,515	(3,222
		)
Other current assets	917	(2,374
		)
Other assets, net	49	(15
		)
Accounts payable	(151	) (789
		)
Accrued gas purchases	(3,048	) 1,416
Accrued expenses and other current liabilities	(1,702	) 263
Asset retirement obligations	(83	) —
Other liabilities	88	79
Net cash provided by operating activities	9,102	3,554
Cash flows from investing activities		
Cost of acquisitions, net of cash acquired	183	(110,909
		)
Additions to property, plant and equipment	(38,922	) (3,928
		)
Proceeds from disposals of property, plant and equipment	2,800	6,135
Proceeds from equity method investment, return of capital	833	—
Restricted cash	6,450	—
Net cash used in investing activities	(28,656	) (108,702
		)
Cash flows from financing activities		
Payment of offering costs	(148	) 86,926
Unitholder contributions	—	1,276
Unitholder distributions	(12,159	) (5,379
		)
Issuance of Series A Units	20,000	—
Issuance of Series B Units	—	30,000
Acquisition of noncontrolling interests	—	(8
		)
Net distributions to noncontrolling interests	(37	) (98
		)
LTIP tax netting unit repurchase	(725	) (90
		)
Payment of deferred financing costs	(163	) (144
		)
Payments on other debt	(1,613	) (791
		)
Borrowings on other debt	—	170
Payments on long-term debt	(54,200	) (49,771
		)



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Borrowings on long-term debt	68,100	44,686
Net cash provided by financing activities	19,055	106,777
Net increase (decrease) in cash and cash equivalents	(499	) 1,629
Cash and cash equivalents		
Beginning of period	499	393
End of period	\$—	\$2,022
Supplemental cash flow information		
Interest payments, net	\$2,290	\$1,781
Supplemental non-cash information		
Increase (decrease) in accrued property, plant and equipment	\$(3,678	) \$(1,474
Accrued paid in-kind unitholder distributions for Series A Units	3,411	1,844
In-kind unitholder distributions for Series B Units	420	—

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 and Basis of Presentation

#### 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 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 in a series of wholly owned 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, fractionating NGLs and storing specialty chemical products through our ownership and operation of twelve gathering systems, five processing facilities, three fractionation facilities, four marine terminal sites, three interstate pipelines and five intrastate pipelines. We also own a 66.7% non-operating interest in Main Pass Oil Gathering, LP ("MPOG"), a crude oil gathering and processing system, a 46.0% non-operated interest in Mesquite, an off-spec condensate fractionation project, as well as a 50% undivided, non-operating interest in the Burns Point Plant, a natural gas processing plant. Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Maryland, Mississippi, North Dakota, Tennessee and Texas, provide critical infrastructure that links producer of natural gas, 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 1.7 million barrels of storage capacity across four marine terminal sites.

#### Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete 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. We have made reclassifications to amounts reported in prior period condensed consolidated financial statements to conform to our current year presentation. These reclassifications did not have an impact on net income (loss) for the period previously reported. 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.

The financial results for the three months ended March 31, 2014, have been reclassified to present an asset group previously presented as held for sale as held and used.

Our financial results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2015. 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, 2014 ("Annual Report") filed with the Securities and Exchange Commission on March 10, 2015.

## Consolidation Policy

The accompanying condensed consolidated financial statements include 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. We hold a 50% undivided interest in the Burns Point gas processing facility in which we are responsible for our proportionate share of the costs and expenses of the facility. Our condensed consolidated financial statements reflect our proportionate share of the revenues, expenses, assets and liabilities of this undivided interest. As of March 31, 2015, we also hold a 92.2% undivided interest in the Chatom Processing and Fractionation facility (the "Chatom System"). Our condensed consolidated financial statements reflect the accounts of the Chatom System and the interests in the Chatom System held by non-affiliated working interest owners are reflected as noncontrolling interests in the Partnership's condensed consolidated financial statements.

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The Partnership accounts for its 66.7% non-operated interest in MPOG and its 46.0% non-operated interest in Mesquite under the equity method.

### 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 estimates, including assumptions for 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.

### 2. Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance amends the requirements for reporting discontinued operations and requires expanded disclosures for individually significant components of an entity that either have been disposed of or are classified as held for sale, but do not qualify for discontinued operations reporting. Only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. ASU 2014-08 is effective for annual periods, and interim periods within those years, beginning on or after December 15, 2014 and is applied prospectively. Early adoption is permitted, but only for disposals or classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. The update was adopted by the Partnership as of April 1, 2014 and did not have a material impact on its condensed consolidated financial statements.

In May 2014, the FASB issued 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. The guidance in ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods therein. The FASB voted to propose a deferral of the effective date by one year, but to permit entities to adopt the standard as of the original effective date. The Partnership is currently evaluating the method of adoption and impact this standard will have on its condensed consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. This guidance amends the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Partnership is currently evaluating the potential impact this standard will have on its condensed consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as



a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, including interim periods therein, and is applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. At March 31, 2015, the Partnership had \$10.5 million of deferred financing costs included in Other assets, net which would be reclassified as a reduction of long-term debt under the updated guidance.

In April 2015, the FASB issued ASU No. 2015-06, Earnings Per Share (Topic 260). This guidance clarifies the process for updating historical earnings per unit disclosures when a drop-down transaction occurs between entities under common control. Pursuant to the amendment, the previously reported earnings per unit measure presented in the historical financial statements would not change as a result of the dropdown transaction. ASU 2015-06 is effective for annual reporting periods beginning after December 15, 2015, and for interim periods within those fiscal years. Early adoption is permitted. The Partnership has evaluated this guidance and determined it is consistent with our policy and historical presentation of earnings per unit.

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## 3. Acquisitions and Divestitures

## Costar Acquisition

On October 14, 2014, the Partnership acquired 100% of the membership interests of Costar Midstream, L.L.C. ("Costar") from Energy Spectrum Partners VI LP and Costar Midstream Energy, LLC, in exchange for \$265.2 million in cash and 6.9 million of the Partnership's common units representing Limited Partner interests, or common units (the "Costar Acquisition"). Costar is an onshore gathering and processing company with its primary gathering, processing, fractionation, and off-spec condensate treating and stabilization assets in East Texas and the Permian basin, with a significant crude oil gathering system project under development in the Bakken oil play.

The Costar Acquisition was accounted for using the acquisition method of accounting and as a result, the aggregate purchase price was allocated to the assets acquired, liabilities assumed and a noncontrolling interest in a Costar subsidiary based on their respective fair values as of the acquisition date. The excess of the aggregate purchase price over the fair values of the assets acquired, liabilities assumed and the noncontrolling interest was classified as goodwill, which is attributable to future prospective customer agreements expected to be obtained as a result of the acquisition. Costar has been included in the Partnership's Gathering and Processing Segment from the acquisition date.

The following table summarizes the fair value of consideration transferred to acquire Costar and the allocation of that amount to the assets acquired, liabilities assumed and the noncontrolling interest based upon their respective fair values as of the acquisition date (in thousands).

Fair value of consideration transferred:	
Cash	\$265,201
Limited partner common units	147,296
Total fair value of consideration	\$412,497
Fair Value of assets acquired, liabilities assumed and noncontrolling interest:	
Working capital	\$8,152
Property, plant and equipment:	
Processing plants	\$48,357
Pipelines	128,799
Land	1,244
Buildings	682
Equipment	9,827
Construction in progress	16,146
Total property, plant and equipment	205,055
Investment in unconsolidated affiliate	11,884
Intangible assets:	
Customer relationships	53,400
Dedicated acreage	32,000
Goodwill	102,225
Noncontrolling interest	(219 )
	\$412,497

The fair value of the common units of \$147.3 million differs from the amount determined using the market price of such units on the date of the acquisition as a result of restrictions which require the sellers to hold the units for specified periods of time. The fair value of limited partner units issued in the transaction was determined using an option pricing model and the following key assumptions: i) the closing unit market price on the day of the acquisition, ii) the contractual holding periods, iii) historical unit price volatility for the Partnership and its peers, and iv) a

risk-free rate of return.

The fair value of property, plant and equipment was determined using both the cost and market approaches which required significant Level 3 inputs. Key assumptions included i) estimated replacement costs for individual assets or asset groups, ii) estimated

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remaining useful lives for the acquired assets, and iii) recent market transactions for similar assets. The fair value of intangible assets was determined using the income approach which also required significant Level 3 inputs. Key assumptions included i) estimated throughput volumes, ii) forward market prices for natural gas and NGLS as of the acquisition date, iii) estimated future operating and development cash flows, and iv) discount rates ranging from 11.0% to 16.0%.

The intangible assets acquired relate to existing customer relationships that Costar had at the time of the acquisition, as well as agreements with two producers under which Costar agreed to construct and operate gathering and processing facilities in exchange for the producers' agreements to dedicate certain acreage and related production to those facilities. Working capital includes \$11.2 million of accounts receivable, all of which were subsequently collected. During the first quarter of 2015, we reached final settlement of working capital amounts with the sellers, resulting in an adjustment to goodwill of \$0.2 million.

Costar contributed revenue of \$21.4 million and net income of \$1.2 million for the three months ended March 31, 2015, attributable to the Partnership's Gathering and Processing segment.

#### Lavaca Acquisition

On January 31, 2014, the Partnership acquired approximately 120 miles of high- and low-pressure pipelines and associated facilities located in the Eagle Ford shale in Gonzales and Lavaca Counties, Texas from Penn Virginia Corporation (NYSE: PVA) ("PVA") for \$104.4 million in cash (the "Lavaca Acquisition"). The Lavaca Acquisition was financed with proceeds from the Partnership's January 2014 equity offering and from the issuance of Series B Units to our General Partner.

The Lavaca Acquisition was accounted for using the acquisition method of accounting and, as a result, the purchase price was allocated to the assets acquired upon their respective fair values as of the acquisition date. The excess of the purchase price over the fair value of the assets acquired was classified as goodwill.

The following table summarizes the final allocation of the purchase price to the assets acquired based upon their respective fair values as of the acquisition date (in thousands):

Property, plant and equipment:	
Land	\$2
Pipelines	58,737
Equipment	753
Total property, plant and equipment	59,492
Intangible assets	21,350
Goodwill	23,567
Total cash consideration	\$104,409

The fair value of property, plant and equipment was determined using the cost approach which required significant Level 3 inputs. Key assumptions included i) estimated replacement costs for individual assets or asset groups and ii) estimated remaining useful lives for the acquired assets. The fair value of intangible assets was determined using the income approach which also required significant Level 3 inputs. Key assumptions included i) estimated throughput volumes, ii) future operating and development cash flows, and iii) a discount rate of 10.5%.

The intangible assets acquired relate to a gas gathering agreement under which PVA has dedicated certain acreage and related production to the acquired facilities.

Lavaca contributed revenue of \$6.0 million and net income of \$2.2 million for the three months ended March 31, 2015, attributable to the Partnership's Gathering and Processing segment.

Other Acquisitions

Investment in Unconsolidated Affiliate

On August 11, 2014, the Partnership acquired a 66.7% non-operated interest in MPOG, an offshore oil gathering system, for a net purchase price of \$12.0 million, which was financed with borrowings from the Partnership's credit facility. Although the Partnership owns a majority interest in MPOG, the ownership structure requires unanimous approval of all owners on decisions impacting

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the operation of the assets and any changes in ownership structure. Therefore, the Partnership's voting rights are not proportional to its obligation to absorb losses or receive returns. The Partnership accounts for its 66.7% interest using the equity method. The Partnership recorded \$0.2 million in earnings from unconsolidated affiliate, and received cash distributions of \$1.0 million for the three months ended March 31, 2015. The excess of the cash distributions received over the earnings recorded from MPOG is classified as a return of capital within the investing section of our consolidated statement of cash flows.

## Williams Pipeline Acquisition

In the first quarter of 2014, the Partnership acquired natural gas pipeline facilities that are contiguous to and connect with our High Point System in our Transmission segment located in offshore Louisiana from Transcontinental Gas Pipe Line Company, LLC, a subsidiary of Williams Partners, LP for \$6.5 million in cash. The acquisition was subject to FERC approval of the seller's application to abandon by sale to us the pipeline facilities and to permit the facilities to serve a gathering function, exempt from FERC's jurisdiction. The FERC granted approval of the application during the first quarter of 2014, and the purchase and sale agreement closed on March 14, 2014. The purchase price was allocated to pipelines using the income approach which required certain Level 3 inputs.

## Madison Divestiture

On March 31, 2014, the Partnership completed the sale of certain gathering and processing assets in Madison County, Texas. We received \$6.1 million in cash proceeds related to the sale.

## 4. Discontinued Operations

The Partnership continues to classify the terminal asset in Salisbury, Maryland as held for sale as we are continuing negotiations for the sale of those assets, contingent upon the purchaser's completion of due diligence. The net book value of the assets and liabilities attributable to the terminal asset comprise less than \$0.1 million of Other current assets, \$1.2 million of Other assets, net, and less than \$0.1 million of Accrued expenses and other current liabilities as of March 31, 2015 and December 31, 2014.

We have classified these assets as discontinued operations within our condensed consolidated statement of operations. Accordingly, we reclassified and excluded the disposal group's results of operations from our results of continuing operations and reported the disposal group's results of operations as Income (loss) from discontinued operations, net of tax in our accompanying condensed consolidated statement of operations for all periods presented. We did not, however, elect to present separately the operating, investing and financing cash flows related to the disposal groups in our accompanying condensed consolidated statement of cash flows as this activity was immaterial for all periods presented. The following table presents the revenue, expense and gain (loss) from operations of disposal groups associated with the assets classified as held for sale for the three months ended March 31, 2015 and 2014 (in thousands, except per unit amounts):

	Three months ended March 31,	
	2015	2014
Revenue	\$64	\$237
Expense	(55	) (277
Loss on sale of assets	—	(22
Income tax benefit	(4	) 12
Income (loss) from operations of disposal groups, net of tax	\$5	\$(50
Limited partners' net income (loss) per unit from discontinued operations (basic and diluted)	\$—	\$—

5. Concentration of Credit Risk and Trade Accounts Receivable

Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Maryland, Mississippi, North Dakota, Tennessee and Texas, provide critical infrastructure that links customers of 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, and as such reduced the concentration which may affect our overall credit risk in that the customers may be similarly affected by changes in economic, regulatory or other factors. We maintain allowances for potentially uncollectible accounts receivable; however, for the three months ended March 31, 2015 and 2014, no allowances on or significant write-offs of accounts receivable were recorded.

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The following table summarizes the percentage of revenue earned from those customers that accounted for 10% or more of the Partnership's consolidated revenue in its condensed consolidated statement of operations for each of the periods presented below:

	Three months ended March 31,		
	2015	2014	
Customer A	10	% 12	%
Customer B	—	% 30	%
Customer C	—	% 15	%
Other	90	% 43	%
Total	100	% 100	%

## 6. Other Current Assets

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

	March 31, 2015	December 31, 2014
Prepaid insurance	\$2,845	\$4,162
Restricted cash	25	6,475
Other current assets	5,311	4,917
	\$8,181	\$15,554

Restricted cash of \$6.5 million as of December 31, 2014 consisted of a cash-backed letter of credit related to Costar operations that the Partnership was contractually obligated to maintain after the Costar Acquisition. The Partnership was released of this obligation in January 2015. Other current assets primarily consist of natural gas imbalances and amounts due from related parties.

## 7. Derivatives

## Commodity Derivatives

To minimize the effect of commodity price changes and maintain our cash flow and the economics of our development plans, we enter into commodity hedge 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. This hedging program is designed to mitigate the effect of commodity price declines while allowing us to participate in some commodity price upside. 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 and collars. As of March 31, 2015, the aggregate notional volume of our commodity derivatives was 2.7 million gallons.

We enter into commodity 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 March 31, 2015, 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 Swap

We entered into an interest rate swap to manage the impact of the interest rate risk associated with our credit facility, effectively converting a portion of the cash flows related to our long-term variable rate debt into fixed rate cash flows. As of March 31, 2015, the notional amount of our interest rate swap was \$100.0 million. The interest rate swap was entered into with a single counterparty and we were not required to post collateral. The interest rate swap will expire August 1, 2015.

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## Weather Derivative

In the second quarter of 2014, we entered into a weather derivative to mitigate the impact of potential unfavorable weather to our operations under which we could receive payments totaling up to \$10.0 million in the event that a hurricane or hurricanes of certain strength pass through the area as identified in the derivative agreement. The weather derivatives are accounted for using the intrinsic value method, under which the fair value of the contract was zero and any amounts received are recognized as gains during the period received. The weather derivatives were entered into with a single counterparty and we were not required to post collateral.

We paid premiums of \$1.0 million in 2014, which are 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 \$0.2 million as of March 31, 2015 and 2014.

As of March 31, 2015 and December 31, 2014, the value associated with our commodity derivatives, interest rate swap, and weather derivative were recorded in our condensed consolidated balance sheets, under the captions as follows (in thousands):

Balance Sheet Classification	Gross Risk Management Assets		Gross Risk Management Liabilities		Net Risk Management Assets (Liabilities)	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Current	\$455	\$688	\$—	\$—	\$455	\$688
Noncurrent	—	—	—	—	—	—
Total assets	\$455	\$688	\$—	\$—	\$455	\$688
Current	\$—	\$—	\$(168)	\$(215)	\$(168)	\$(215)
Noncurrent	—	—	—	—	—	—
Total liabilities	\$—	\$—	\$(168)	\$(215)	\$(168)	\$(215)

For the three months ended March 31, 2015 and 2014, respectively, the realized and unrealized gains (losses) associated with our commodity derivatives, interest rate swap instrument and weather derivative were recorded in our condensed consolidated statements of operations, under the captions as follows (in thousands):

Statement of Operations Classification	Three months ended March 31, Gain (loss) on derivatives	
	Realized	Unrealized
2015		
Gain (loss) on commodity derivatives, net	\$139	\$8
Interest expense	(102)	) 47
Direct operating expenses	(241)	) —
Total	\$(204)	) \$55
2014		
Gain (loss) on commodity derivatives, net	\$(102)	) \$(28)
Interest expense	(104)	) (11)
Direct operating expenses	(284)	) —
Total	\$(490)	) \$(39)

## 8. 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 amounts outstanding under the credit facility approximates its fair value, as interest rates are variable, based on prevailing market rates and the short-term nature of borrowings and repayments under the credit facility.

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The fair value of all derivatives instruments is 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 three months ended March 31, 2015 and 2014.

## Fair Value of Financial Instruments

The following table sets forth by level within the fair value hierarchy, our commodity derivative instruments and interest rate swap, 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 March 31, 2015 and December 31, 2014 (in thousands):

	Carrying Amount	Estimated Fair Value of the Asset (Liability)			Total
		Level 1	Level 2	Level 3	
Commodity derivative instruments, net					
March 31, 2015	\$294	\$—	\$294	\$—	\$294
December 31, 2014	286	—	286	—	286
Interest rate swap					
March 31, 2015	\$(168)	) \$—	\$(168)	) \$—	\$(168)
December 31, 2014	(215)	) —	(215)	) —	(215)

The unamortized portion of the premium paid to enter the weather derivative described in Note 7 "Derivatives" is included within Risk management assets on our condensed consolidated balance sheet but is not included as part of the above table as it is recorded at amortized carrying cost, not fair value.

## 9. Property, Plant and Equipment, Net

Property, plant and equipment, net, as of March 31, 2015 and December 31, 2014 were as follows (in thousands):

	Useful Life (in years)	March 31, 2015	December 31, 2014
Land	N/A	\$5,282	\$5,282
Construction in progress	N/A	101,263	77,550
Base gas	N/A	1,108	1,108
Buildings and improvements	4 to 40	7,252	6,855
Processing and treating plants	8 to 40	80,838	80,837
Pipelines	3 to 40	458,732	451,341
Compressors	4 to 20	25,403	24,548
Dock	20 to 40	8,072	8,072
Tanks, truck rack and piping	20 to 40	30,155	30,079
Equipment	8 to 20	8,860	8,855
Computer software	5	3,490	3,490
Total property, plant and equipment		730,455	698,017
Accumulated depreciation		(123,704)	(115,835)

Property, plant and equipment, net	\$606,751	\$582,182
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Of the gross property, plant and equipment balances at March 31, 2015 and December 31, 2014, \$102.8 million and \$101.9 million, respectively, were related to AlaTenn, Midla and HPGT, our FERC regulated interstate and intrastate assets.

Capitalized interest was \$0.2 million and \$0.1 million for the three months ended March 31, 2015 and 2014, respectively.

Depreciation expense was \$7.9 million and \$6.5 million for the three months ended March 31, 2015 and 2014, respectively.

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## 10. Goodwill and Intangible Assets, Net

The carrying value of goodwill as of March 31, 2015 and December 31, 2014, was \$142.1 million and \$142.2 million, respectively. During the first quarter of 2015, we reached final settlement of working capital amounts associated with the Costar Acquisition, resulting in an adjustment to goodwill of \$0.2 million. Goodwill as of March 31, 2015 consisted of \$125.8 million and \$16.3 million related to our Gathering and Processing and Terminal Segments, respectively. Goodwill as of December 31, 2014 consisted of \$125.9 million and \$16.3 million related to our Gathering and Processing and Terminal Segments, respectively.

The goodwill associated with our Gathering and Processing segment relates to the Costar and Lavaca Acquisitions and primarily represent strategic developmental locations to grow the business within the segment. The goodwill associated with our Terminal Segment was contributed to the Partnership as part of the Partnerships' acquisition of Blackwater Midstream Holdings LLC ("Blackwater") and other related subsidiaries from an affiliate of HPIP (the "Blackwater Acquisition"). Goodwill was recorded as a result of the excess of the investment by an affiliate of HPIP in Blackwater over the fair market value of the identifiable net assets and customer contracts acquired.

Intangible assets, net, consists of customer contracts, relationships and dedicated acreage agreements identified as part of the Costar Acquisition, Lavaca Acquisition and Blackwater Acquisition. These intangible assets have definite lives and are subject to amortization on a straight-line basis over their economic lives, currently ranging from 5 months to thirty years. Intangible assets, net, consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Gross carrying amount:		
Customer contracts	\$12,101	\$12,101
Customer relationships	53,400	53,400
Dedicated acreage	53,350	53,350
	\$118,851	\$118,851
Accumulated amortization:		
Customer contracts	\$(11,636)	\$(11,110)
Customer relationships	(1,197)	(553)
Dedicated acreage	(1,326)	(882)
	\$(14,159)	\$(12,545)
Net carrying amount:		
Customer contracts	\$465	\$991
Customer relationships	52,203	52,847
Dedicated acreage	52,024	52,468
	\$104,692	\$106,306

For the three months ended March 31, 2015 and 2014, amortization expense on our intangible assets totaled \$1.6 million and \$0.7 million, respectively.

## 11. Accrued Expenses and Other Current Liabilities

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

	March 31, 2015	December 31, 2014
Accrued capital expenditures	\$15,403	\$17,134

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Accrued expenses	1,249	7,036
Gas imbalances payable	967	1,069
Other	3,665	561
	\$21,284	\$25,800

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## 12. Debt Obligations

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

	March 31, 2015	December 31, 2014
Revolving credit facility	\$386,850	\$372,950
Other debt	1,833	2,908
Total debt	388,683	375,858
Less: current portion	1,833	2,908
Long-term debt	\$386,850	\$372,950

On September 5, 2014, the Partnership entered into an amended and restated credit agreement (the "Credit Agreement"), which provides for a maximum borrowing equal to \$500.0 million, with the ability to further increase the borrowing capacity 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 maximum commitment fee of 0.50% per annum on the undrawn portion of the revolving loan.

Our obligations under the Credit Agreement are secured by a first mortgage in favor of the lenders in the majority of our real property. 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 the requirement that our indebtedness not exceed 4.75 times adjusted consolidated EBITDA (except for the current and subsequent two quarters after the consummation of a permitted acquisition, at which time the covenant is increased to 5.25 times adjusted Consolidated EBITDA) and a minimum interest coverage ratio test (not less than 2.50). The financial covenants in our Credit Agreement may limit the amount available to us for borrowing to less than \$500.0 million. In addition to the financial covenants described above, the Credit Agreement also contains customary representations and warranties (including those relating to organization and authorization, compliance with laws, absence of defaults, material agreements and litigation) and customary events of default (including those relating to monetary defaults, covenant defaults, cross defaults and bankruptcy events).

For the three months ended March 31, 2015 and 2014, the weighted average interest rate on borrowings under the Credit Agreement was approximately 2.37% and 4.40%, respectively.

As of March 31, 2015, our consolidated total leverage was 4.97 and our interest coverage ratio was 11.06, which were in compliance with the consolidated total leverage ratio and interest coverage ratio tests in accordance with the financial covenants required in the Credit Agreement. At March 31, 2015 and December 31, 2014, letters of credit outstanding under the Credit Agreement were \$5.1 million and \$1.6 million, respectively.

Other debt



Other debt represents insurance premium financing in the original amount of \$3.3 million bearing interest at 3.95% per annum, which is repayable in equal monthly installments of approximately \$0.4 million through the third quarter of 2015.

### 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. 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 rights held by our General Partner.

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Our General Partner holds and participates in the distribution of Series B Units with such distributions being made in cash or with paid-in-kind Series B Units at the election of the Partnership. The holders of Series B Units are entitled to vote along with the holders of Limited Partner common units and such units will automatically convert to Limited Partner common units on January 31, 2016.

HPIP holds and participates in the distribution of Series A-1 Units with such distributions being made in paid-in-kind Series A-1 Units, cash or a combination thereof, at the election of the board of directors of our General Partner through the distribution for the earlier of (a) the quarter ended March 31, 2016 or (b) the time in which the Series A-1 Units are converted into common units. The Series A-1 Units are entitled to vote along with Limited Partner common unitholders and such units are currently convertible to Limited Partner common units.

## Series A-2 Units

On March 30, 2015, we entered into a Series A-2 Convertible Preferred Unit Purchase Agreement (the "Agreement") with Magnolia Infrastructure Partners, LLC (an affiliate of HPIP) pursuant to which the Partnership issued in a private placement newly-designated Series A-2 Units (the "Series A-2 Units") representing limited partnership interests in the Partnership for approximately \$20.0 million in aggregate proceeds. Under the Agreement, the Partnership has the ability to issue additional Series A-2 Units for up to \$25 million in aggregate proceeds. The Series A-2 Units will participate in distributions of the Partnership along with common units in a manner identical to the existing Series A Units, with such distributions being made in cash or with paid-in-kind Series A Units at the election of the Partnership (the Series A-1 Units and the Series A-2 Units are herein collectively referred to as the Series A Units). The Partnership has elected to pay Series A distributions using paid-in-kind Series A Units.

## Equity Offerings

On January 29, 2014, the Partnership and certain of its affiliates entered into an underwriting agreement with Barclays Capital Inc. and UBS Securities LLC (the "Underwriters"), providing for the issuance and sale by the Partnership, and the purchase by the Underwriter, of 3,400,000 Limited Partner common units representing limited partner interests in the Partnership at a price to the public of \$26.75 per common unit. The Partnership used the net proceeds of \$86.9 million to fund a portion of the Lavaca Acquisition.

## Issuance and Exercise of Warrant

Effective February 5, 2014, we issued to AIM Midstream Holdings, LLC a warrant to purchase up to 300,000 Limited Partner common units of the Partnership at an exercise price of \$0.01 per common unit (the "Warrant"). The Warrant was exercised on February 21, 2014, resulting in the issuance of approximately 300,000 Limited Partner common units. The value of the Warrant of \$7.2 million was determined based on the close price of \$23.89 of the Limited Partner common units on the exercise date.

## Equity Outstanding

The number of units outstanding as of March 31, 2015 and December 31, 2014, respectively, were as follows (in thousands):

	March 31, 2015	December 31, 2014
Series A convertible preferred units	7,052	5,745
Series B convertible units	1,278	1,255
Limited Partner common units	22,754	22,670
General Partner units	392	392

Distributions

We made cash distributions as follows (in thousands):

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	Three months ended March 31,	
	2015	2014
Series A convertible preferred units	—	1,320
Limited Partner common units	10,713	4,897
General Partner units	158	72
General Partners' incentive distribution rights	1,288	410
	\$12,159	\$6,699

The Partnership executed an amendment to its partnership agreement (the "Amendment"), which became effective March 30, 2015, related to its outstanding Series A Units. As a result of the Amendment, distributions on Series A Units will be made with paid-in-kind Series A Units, cash or a combination thereof, at the discretion of the board of directors of our General Partner, which began with the distribution for the three months ended June 30, 2014 and will continue through the distribution for the earlier of (a) the quarter ended March 31, 2016 or (b) the time in which the Series A-1 Units are converted into common units. At March 31, 2015, we have accrued \$3.4 million for the paid-in-kind Series A Units. The distributions will be made in the second quarter of 2015.

## Net Income (Loss) attributable to Limited Partner Units

Net income (loss) is allocated to the General Partner and the limited partners in accordance with their respective ownership percentages, after giving effect to contractual distributions on Series A Units, declared distributions on the Series B Units, common units representing Limited Partner interests and to the 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 net income per limited partner unit. Basic and diluted net income (loss) per limited partner 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 net income (loss) per limited partner unit as follows, (in thousands, except per unit amounts):

	Three months ended March 31,	
	2015	2014
Net income (loss) from continuing operations	\$835	\$558
Less: Net income (loss) attributable to noncontrolling interests	14	108
Net income (loss) from continuing operations attributable to the Partnership	821	450
Less:		
Contractual distributions on Series A Units	3,411	3,182
Declared distributions on Series B Units	420	—
General partner's distribution	1,447	482
General partner's share in undistributed loss	(189)	(106)
Net income (loss) from continuing operations available to limited partners	(4,268)	(3,108)
Net income (loss) from operations of disposal groups, net of tax, available to limited partners	5	(50)
Net income (loss) available to limited partners	\$(4,263)	\$(3,158)
Weighted average number of units used in computation of limited partners' net (loss) income per unit (basic and diluted)	22,703	9,846
Limited partners' net loss per common unit		
Basic and diluted:		
Loss from continuing operations	\$(0.19)	\$(0.32)
Loss from discontinued operations	—	—

Net loss \$(0.19 ) \$(0.32 )

#### 14. Long-Term Incentive Plan

Our General Partner manages our operations and activities and employs personnel who provide support to our operations. The board of directors of our General Partner provides grants awards under its long-term incentive plan (“LTIP”) for its employees, consultants and directors who perform services for it or its affiliates. At March 31, 2015 and December 31, 2014, 396,081 and 688,976 units, respectively, were available for future grant under the LTIP.

LTIP awards are subject to forfeiture until the vesting date. The LTIP is administered by the board of directors of our General Partner which, at its discretion, may elect to settle such vested phantom units with a number of 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

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units, our General Partner has not historically settled these awards in cash. Although other types of awards are contemplated under the LTIP, all currently outstanding awards are phantom units without distribution equivalent rights.

Generally, grants issued under the LTIP vest in increments of 25% on each grant date anniversary and do not contain any vesting other than continued employment requirements.

The following table summarizes changes in our unit-based awards during the three months ended March 31, 2015 indicated, in units:

	Three months ended March 31, 2015	
	Units	Weighted-Average Exercise Price
Outstanding at beginning of period	201,132	\$ 19.85
Granted	333,110	15.80
Forfeited	(1,043	) 15.04
Vested	(123,394	) 18.90
Outstanding at end of period	409,805	\$ 16.86

The fair value of our phantom units, which are subject to equity classification, is based on the fair value of our units at the grant date. Compensation costs related to these awards, including amortization, for the three months ended March 31, 2015 and 2014 were \$1.7 million and \$0.4 million, respectively, which are classified as Equity compensation expense in our condensed consolidated statements of operations and the non-cash portion in partners' capital on our condensed consolidated balance sheets.

The total fair value of vested units at the time of vesting was \$2.3 million and \$0.6 million for the three months ended March 31, 2015 and 2014, respectively.

Equity compensation expense related to unvested awards not yet recognized at March 31, 2015 and 2014 was \$6.6 million and \$4.1 million, respectively, and the weighted average period over which this cost is expected to be recognized as of March 31, 2015 is approximately 3.4 years.

## 15. Income Taxes

The Partnership is not a taxable entity for U.S. federal income tax purposes or for the majority of states that impose an income tax. Taxes on our income generally are borne by our unitholders through the allocation of taxable income. However, one of our subsidiaries, Blackwater Midstream Corp, is a taxable entity. Income tax expense for the three months ended March 31, 2015 was \$0.2 million, resulting in an effective tax rate of 15.7%. For the three months ended March 31, 2014, income tax was a benefit of less than \$0.1 million, resulting in an effective tax rate of 1.9%.

The effective tax rates for the three months ended March 31, 2015 and March 31, 2014, 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 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 the consolidation of Net income (loss) before income tax (expense) benefit.

## 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 proceeds 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 pipeline, 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.

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### Regulatory matters

On December 11, 2014, American Midstream (Midla), LLC ("Midla"), a subsidiary of the Partnership, filed a Stipulation and Agreement (the "Agreement") which resolved all of the outstanding issues between Midla and its customers regarding its interstate pipeline that traverses Louisiana and Mississippi owned and operated by Midla. The parties involved reached agreement in order to provide continued service to Midla's customers while addressing safety concerns with the existing pipeline.

Midla and the parties agreed that Midla may retire the existing 1920s vintage pipeline and replace the existing natural gas service with a new pipeline from Winnsboro, Louisiana to Natchez, Mississippi (the "Midla-Natchez Line") to serve existing residential, commercial, and industrial customers. Under the 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. The Agreement was approved by the FERC without modification on April 16, 2015, however, it is subject to final agreements and ongoing proceedings with the FERC. Under the Agreement Midla will execute long-term agreements to recover its investment in the Midla-Natchez Line.

### 17. Related-Party Transactions

Employees of our General Partner are assigned to work for us. Where directly attributable, the costs of all compensation, benefits expenses and employer expenses for these employees are charged directly by our General Partner to the Partnership, which, in turn, charges the appropriate subsidiary. Our General Partner does not record any profit or margin for the administrative and operational services charged to us. During the three months ended March 31, 2015, administrative and operational services expenses of \$7.7 million were charged to us by our General Partner. During the three months ended March 31, 2014, administrative and operational services expenses of \$5.0 million were charged to us by our General Partner. For the three months ended March 31, 2014, our General Partner incurred approximately \$0.5 million of costs primarily associated with certain business development activities.

During the first quarter of 2015, the Partnership and an affiliate of HPIP entered into an arrangement under which the affiliate reimbursed the Partnership for right-of-ways purchased on the affiliates' behalf for approximately \$2.8 million.

During the second quarter of 2014, the Partnership and an affiliate of its General Partner entered into a Management Service Fee arrangements under which the affiliate pays a monthly fee to reimburse the Partnership for administrative expenses incurred on the affiliates' behalf. During the three months ended March 31, 2015, the Partnership recognized \$0.4 million in management fee income that has been recorded as a reduction to Selling, general and administrative expenses.

### 18. Reporting Segments

Our operations are located in the United States and are organized into three reporting 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 oil, which include transporting raw natural gas from the wellhead 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 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, which include local distribution companies, 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.

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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 the performance measure utilized by management to monitor the business of each segment.

The following tables set forth our segment information for the three months ended March 31, 2015 and 2014 (in thousands):

	Three months ended March 31, 2015			Total
	Gathering and Processing	Transmission	Terminals	
Revenue	\$48,449	\$11,748	\$4,265	\$64,462
Gain (loss) on commodity derivatives, net	147	—	—	147
Total revenue	48,596	11,748	4,265	64,609
Operating expenses:				
Purchases of natural gas, NGL's and condensate	27,319	1,659	—	28,978
Direct operating expenses	9,092	3,180	1,595	13,867
Selling, general and administrative expenses				6,935
Equity compensation expense				1,698
Depreciation, amortization and accretion expense				9,689
Total operating expenses				61,167
Gain (loss) on sale of assets, net				(8 )
Interest expense				(2,610 )
Earnings in unconsolidated affiliates				