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American Midstream Partners, LP
Form 10-Q
August 10, 2017
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 June 30, 2017

or

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

For the transition period from to

Commission File Number: 001-35257

AMERICAN MIDSTREAM PARTNERS, LP
(Exact name of registrant as specified in its charter)
Delaware 27-0855785
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2103 CityWest Boulevard
Building #4, Suite 800
Houston, TX 77042
(Address of principal executive offices) (Zip code)
(346) 241-3400
(Registrant's telephone number, including area 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" or an "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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 51,759,787 common units, 10,400,213 Series A Units, 8,792,205 Series C Units and 2,333,333 Series D Units of American Midstream Partners, LP outstanding as of August 3, 2017. 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.

Bbl/d Barrels per day.

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 casing head gas that condense within the gathering system and are removed prior to delivery to the natural 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 Generally Accepted Accounting Principles in the United States of America.

Gal Gallons.

Mgal/d Thousand gallons per day.

MBbl Thousand barrels.

MMBbl Million barrels.

MMBbl/day Million barrels per day.

MMBtu Million British thermal units.

Mcf Thousand cubic feet.

MMcf Million cubic feet.

MMcf/d Million cubic feet per day.

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 and NGL 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, except unit amounts)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$5,903	\$5,666
Restricted cash	18,965	—
Accounts receivable, net of allowance for doubtful accounts of \$1,872 and \$1,871, respectively	22,905	27,769
Unbilled revenue	51,123	55,646
Inventory	8,105	6,776
Other current assets	39,655	27,667
Total current assets	146,656	123,524
Risk management assets-long term	7,704	10,664
Property, plant and equipment, net	1,166,421	1,145,003
Goodwill	217,498	217,498
Restricted cash-long term	5,038	323,564
Intangible assets, net	212,990	225,283
Investment in unconsolidated affiliates	286,548	291,988
Other assets, net	9,087	11,797
Total assets	\$2,051,942	\$2,349,321
Liabilities, Equity and Partners' Capital		
Current liabilities		
Accounts payable	\$34,156	\$45,278
Accrued gas purchases	14,211	7,891
Accrued expenses and other current liabilities	87,026	81,284
Current portion of long-term debt	1,757	5,485
Total current liabilities	137,150	139,938
Asset retirement obligations	45,302	44,363
Other long-term liabilities	2,225	2,030
3.77% Senior secured notes (Non-recourse)	55,294	55,979
8.50% Senior unsecured notes	292,609	291,309
Revolving credit facility	678,042	888,250
Deferred tax liability	9,455	8,205
Total liabilities	1,220,077	1,430,074
Commitments and contingencies (Note 17)		
Convertible preferred units (Note 13)	338,195	334,090
Equity and partners' capital		
General Partner interests (953 thousand and 680 thousand units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively)	(26,664	) (47,645)
Limited Partner interests (51,760 thousand and 51,351 thousand units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively)	502,311	616,087
Accumulated other comprehensive income (loss)	2	(40)
Total partners' capital	475,649	568,402
Noncontrolling interests	18,021	16,755

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Total equity and partners' capital	493,670	585,157
Total liabilities, equity and partners' capital	\$2,051,942	\$2,349,321

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

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue:				
Commodity sales	\$153,728	\$148,592	\$312,229	\$256,162
Services	39,698	38,611	81,086	74,655
Gains (losses) on commodity derivatives, net	207	(1,367)	(50)	(1,605)
Total revenue	193,633	185,836	393,265	329,212
Operating expenses:				
Costs of sales	128,816	115,080	261,601	189,018
Direct operating expenses	31,884	31,967	61,972	62,542
Corporate expenses	30,084	22,281	62,928	43,382
Depreciation, amortization and accretion	30,170	26,398	59,521	51,439
(Gain) loss on sale of assets, net	52	478	(176)	1,600
Total operating expenses	221,006	196,204	445,846	347,981
Operating loss	(27,373)	(10,368)	(52,581)	(18,769)
Other income (expense), net				
Interest expense	(17,152)	(10,610)	(35,118)	(18,912)
Other income	72	496	86	527
Earnings in unconsolidated affiliates	17,552	11,702	32,954	19,045
Loss from continuing operations before taxes	(26,901)	(8,780)	(54,659)	(18,109)
Income tax expense	(801)	(701)	(1,924)	(1,436)
Loss from continuing operations	(27,702)	(9,481)	(56,583)	(19,545)
Loss from discontinued operations, net of tax	—	—	—	(539)
Net loss	(27,702)	(9,481)	(56,583)	(20,084)
Less: Net income attributable to noncontrolling interests	1,462	954	2,765	951
Net loss attributable to the Partnership	\$(29,164)	\$(10,435)	\$(59,348)	\$(21,035)
General Partner's interest in net loss	\$(375)	\$(107)	\$(795)	\$(204)
Limited Partners' interest in net loss	\$(28,789)	\$(10,328)	\$(58,553)	\$(20,831)
Distribution declared per common unit ⁽¹⁾	\$0.4125	\$0.4125	\$0.8250	\$0.8850
Limited Partners' net loss per common unit (See Note 15):				
Basic and diluted:				
Loss from continuing operations	\$(0.72)	\$(0.33)	\$(1.46)	\$(0.65)
Loss from discontinued operations	—	—	—	(0.01)
Net loss	\$(0.72)	\$(0.33)	\$(1.46)	\$(0.66)
Weighted average number of common units outstanding:				
Basic and diluted	51,870	51,090	51,870	51,090

⁽¹⁾ Declared and paid each quarter related to prior quarter.

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

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net loss	\$(27,702)	\$(9,481)	\$(56,583)	\$(20,084)
Unrealized gain related to postretirement benefit plan	24	21	42	35
Comprehensive loss	(27,678)	(9,460)	(56,541)	(20,049)
Less: Comprehensive income attributable to noncontrolling interests	1,462	954	2,765	951
Comprehensive loss attributable to the Partnership	\$(29,140)	\$(10,414)	\$(59,306)	\$(21,000)

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

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

	General Partner Interests	Limited Partner Interests	Series B Convertible Units	Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Non controlling Interests
Balances at December 31, 2015	\$(47,091)	\$753,388	\$ 33,593	\$ 40	\$739,930	\$ 12,111
Net income (loss)	(204)	(20,831)	—	—	(21,035)	951
Issuance of common units, net of offering costs	—	2,986	—	—	2,986	—
Cancellation of escrow units	—	(6,817)	—	—	(6,817)	—
Conversion of Series B units	—	33,593	(33,593)	—	—	—
Contributions	1,791	4,000	—	—	5,791	—
Distributions	(2,351)	(62,950)	—	—	(65,301)	—
Issuance of warrant	4,481	—	—	—	4,481	—
General Partner's contribution for acquisition	990	—	—	—	990	—
Contributions from noncontrolling interest owners	—	—	—	—	—	1,980
LTIP vesting	(2,107)	2,107	—	—	—	—
Tax netting repurchase	—	(309)	—	—	(309)	—
Equity compensation expense	1,538	942	—	—	2,480	—
Post-retirement benefit plan	—	—	—	35	35	—
Addition of Mesquite NCI	—	—	—	—	—	475
Balances at June 30, 2016	\$(42,953)	\$706,109	\$ —	\$ 75	\$663,231	\$ 15,517
Balances at December 31, 2016	\$(47,645)	\$616,087	\$ —	\$ (40)	\$568,402	\$ 16,755
Net income (loss)	(795)	(58,553)	—	—	(59,348)	2,765
Contributions	23,130	4,000	—	—	27,130	—
Distributions	(594)	(63,574)	—	—	(64,168)	—
Contributions from noncontrolling interests owners	—	—	—	—	—	296
Distributions to noncontrolling interests owners	—	—	—	—	—	(1,795)
LTIP vesting	(4,633)	4,633	—	—	—	—
Tax netting repurchase	—	(1,642)	—	—	(1,642)	—
Equity compensation expense	3,873	1,360	—	—	5,233	—
Post-retirement benefit plan	—	—	—	42	42	—
Balances at June 30, 2017	\$(26,664)	\$502,311	\$ —	\$ 2	\$475,649	\$ 18,021

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

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

	Six months ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	\$(56,583)	\$(20,084)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	59,521	51,650
Amortization of deferred financing costs	2,456	1,512
Amortization of weather derivative premium	475	451
Unrealized loss on derivatives contracts, net	3,020	4,870
Non-cash compensation expense	5,233	3,051
(Gain) loss on sale of assets, net	(176)	) 1,486
Corporate overhead support	4,000	4,000
Other non cash items	1,906	(709)
Earnings in unconsolidated affiliates	(32,954)	) (19,045)
Distributions from unconsolidated affiliates	32,954	19,045
Deferred tax expense	1,250	835
Bad debt expense	515	(61)
Changes in operating assets and liabilities, net of effects of assets acquired and liabilities assumed:		
Accounts receivable	4,238	(1,223)
Inventory	(1,738)	) (5,668)
Unbilled revenue	4,523	6,686
Risk management assets and liabilities	(1,157)	) (1,030)
Other current assets	(6,394)	) 8,149
Other assets, net	147	896
Restricted cash	(3,135))
Accounts payable	(12,069)	) (8,446)
Accrued gas purchases	6,320	2,285
Accrued expenses and other current liabilities	13,216	1,749
Asset retirement obligations	(45)	) (10)
Other liabilities	(247)	) (673)
Net cash provided by operating activities	25,276	49,716
Cash flows from investing activities		
Acquisitions, net of cash acquired and settlements (Note 3)	(32,000)	) (3,073)
Investments in unconsolidated affiliates - Emerald (Note 9)	—	(100,908)
Additions to property, plant and equipment	(44,039)	) (54,658)
Proceeds from disposals of property, plant and equipment	121	11,434
Insurance proceeds from involuntary conversion of property, plant and equipment	150	—
Investments in unconsolidated affiliates	—	(11,444)
Distributions from unconsolidated affiliates, return of capital	5,440	16,673
Restricted cash	302,643	—
Net cash provided by (used in) investing activities	232,315	(141,976)
Cash flows from financing activities		
Proceeds from issuance of common units to public, net of offering costs	—	2,986
Contributions	23,130	1,791

Distributions	(60,494)	(53,983)
Contribution from noncontrolling interest owners	296	1,980
Distributions to noncontrolling interests owners	(1,795)	—
LTIP tax netting unit repurchase	(1,642)	(309)
Payment of financing costs	(2,116)	(1,475)
Payments on 3.77% Senior Notes	(1,078)	—

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	Six months ended	
	June 30,	
	2017	2016
Payments on other debt	(3,447)	(1,810)
Payments on credit agreement	(383,908)	(101,900)
Borrowings on credit agreement	173,700	245,200
Other	—	(166)
Net cash provided by (used in) financing activities	(257,354)	492,314
Net increase in cash and cash equivalents	237	54
Cash and cash equivalents		
Beginning of period	5,666	1,987
End of period	\$5,903	\$2,041

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

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

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

General

American Midstream Partners, LP (the “Partnership”, “we”, “us”, or “our”) is a growth-oriented Delaware limited partnership that was formed on August 20, 2009 to own, operate, develop and acquire a diversified portfolio of midstream energy assets. The Partnership’s general partner, American Midstream GP, LLC (the “General Partner”), is 77% owned by High Point Infrastructure Partners, LLC (“HPIP”) and 23% owned by Magnolia Infrastructure Holdings, LLC, both of which are affiliates of ArcLight Capital Partners, LLC (“ArcLight”). Our capital accounts consist of notional General Partner units and units representing limited partner interests.

JPE Acquisition

On March 8, 2017, we completed the acquisition of JP Energy Partners LP (“JPE”), an entity controlled by ArcLight affiliates, in a unit-for-unit merger (“JPE Acquisition”). In connection with the transaction, we issued approximately 20.2 million common units to holders of the JPE common and subordinated units, including 9.8 million common units to ArcLight affiliates. In connection with the completion of the JPE Acquisition, we entered into a supplemental indenture pursuant to which the JPE Entities jointly and severally, fully and unconditionally, guarantee the 8.50% Senior Notes (as defined below).

As both we and JPE were controlled by ArcLight affiliates, the acquisition represented a transaction among entities under common control. Although we are the legal acquirer, JPE was considered the acquirer for accounting purposes as ArcLight obtained control of JPE prior to obtaining control of us on April 15, 2013. As a result, we adjusted our historical financial statements to reflect ArcLight’s acquisition cost basis of their investment in us back to April 15, 2013. In addition, the accompanying financial statements and related notes have been retrospectively adjusted to include the historical results of JPE prior to the effective date of the JPE Acquisition. The accompanying financial statements and related notes present the combined financial position, results of operations, cash flows and equity of JPE at historical cost.

Nature of business

We provide critical midstream infrastructure that links producers of natural gas, crude oil, NGLs, condensate and specialty chemicals to numerous intermediate and end-use markets. Through our six reportable segments, (1) gas gathering and processing services, (2) liquid pipelines and services, (3) natural gas transportation services, (4) offshore pipelines and services, (5) terminalling services and (6) propane marketing services, we engage in the business of gathering, treating, processing, and transporting natural gas; gathering, transporting, storing, treating and fractionating NGLs; gathering, storing and transporting crude oil and condensates; storing specialty chemical products; and distributing and selling propane and refined products. See Note 21 - Subsequent Events regarding the announced sale of substantially all of our propane marketing services segment in July 2017.

Most of our cash flow is generated from fee-based and fixed-margin arrangements for gathering, processing, transporting and treating natural gas and crude oil, firm capacity reservation charges, interruptible transportation charges, guaranteed firm storage contracts, throughput fees and other optional charges associated with ancillary services.

Our primary assets are strategically located in some of the most prolific onshore and offshore producing regions and key demand markets in the United States. Our gathering and processing assets are primarily located in (i) the Permian Basin of West Texas, (ii) the Cotton Valley/Haynesville Shale of East Texas, (iii) the Eagle Ford Shale of South Texas, (iv) the Bakken Shale of North Dakota, and (v) offshore in the Gulf of Mexico. Our natural gas transportation, offshore pipelines and terminal assets are in key demand markets in Oklahoma, Alabama, Arkansas, Louisiana, Mississippi and Tennessee and in the Port of New Orleans in Louisiana and the Port of Brunswick in Georgia. Our propane marketing services include commercial and retail operations across 46 of the lower 48 states.

Basis of presentation

The unaudited financial information included in this Form 10-Q has been prepared on the same basis as the audited consolidated financial statements included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2016, except that the consolidated financial statements have been retrospectively adjusted to reflect the consolidation of JPE, as discussed above. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of results expected for

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the full year. In the opinion of our management, such financial information reflects all adjustments necessary for a fair statement of the financial position and the results of operations for such interim periods in accordance with GAAP. All such adjustments are of a normal recurring nature. All intercompany items and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to the rules and regulations of the SEC.

Transactions between entities under common control

We may enter into transactions with ArcLight affiliates whereby we receive midstream assets or other businesses in exchange for cash or Partnership equity. We account for the net assets acquired at the affiliate's historical cost basis as the transactions are between entities under common control. In certain cases, our historical financial statements will be revised to include the results attributable to the assets acquired from the later of June 2011 (the date Arclight affiliates obtained control of JPE) or the date the ArcLight affiliate obtained control of the assets acquired.

Summary of Significant Accounting Policies

Use of estimates

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

Cash, cash equivalents and restricted cash

We consider all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short term to maturity of these investments.

From time to time we are required to maintain cash in separate accounts the use of which is restricted by the terms of our debt agreements, asset retirement obligations, contracted arrangements and management restrictions. Such amounts are included in Restricted cash in our condensed consolidated balance sheets.

Allowance for doubtful accounts

We establish provisions for losses on accounts receivable when we determine that we will not collect all or part of an outstanding balance. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary, using the specific identification method, historical collection experience and the age of accounts receivable. As of June 30, 2017 and December 31, 2016, the balance of allowance for doubtful accounts was \$1.9 million.

Investment in unconsolidated affiliates

We hold membership interests in entities that own and operate natural gas pipeline systems and NGL and crude oil pipelines in and around Louisiana, Alabama, Mississippi and the Gulf of Mexico. While we have significant influence over these entities, we do not control them and therefore, they are accounted for using the equity method and are reported in Investment in unconsolidated affiliates in the condensed consolidated balance sheets. We evaluate the recoverability of these investments on a regular basis and recognize impairment write downs if we determine a loss in value represents an other-than-temporary-decline. The unconsolidated affiliates were determined to be variable interest entities due to disproportionate economic interests and decision making rights. In each case, we lack the power to direct the activities that most significantly impact the unconsolidated affiliate's economic performance. As we do not hold a controlling financial interest in these affiliates, we account for our related investments using the equity method. Additionally, our maximum exposure to loss related to each entity is limited to our equity investment as presented on the condensed consolidated balance sheets as of the balance sheet date. In each case, we are not obligated to absorb losses

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greater than our proportional ownership percentages. Our right to receive residual returns is not limited to any amount less than the ownership percentages.

Revenue recognition

We recognize revenue from the sale of commodities (e.g., natural gas, crude oil, NGLs, refined products or condensate) as well as from the provision of gathering, processing, transportation or storage services when all of the following criteria are met: i) persuasive evidence of an exchange arrangement exists, ii) delivery has occurred or services have been rendered, iii) the price is fixed or determinable, and iv) collectability is reasonably assured. We recognize revenue from the sale of commodities and the related cost of product sold on a gross basis for those transactions where we act as the principal and take title to commodities that are purchased for resale.

Revenue-related taxes collected from customers and remitted to taxing authorities, principally sales taxes, are presented on a net basis within the condensed consolidated statements of operations.

2. New Accounting Pronouncements

Accounting Standards Issued Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which amends the existing accounting guidance for revenue recognition. The update requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2015-14 was subsequently issued and deferred the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. From March 2016 to May 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations, as further clarification on principal versus agent considerations; ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing as further clarification on identifying performance obligations and the licensing implementation guidance and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, as clarifying guidance on specific narrow scope improvements and practical expedients. We are in the process of reviewing our various customer arrangements in order to determine the impact the new accounting guidance for revenue recognition will have on our consolidated financial statements and related disclosures. We also have engaged a third-party consulting firm to assist us with all the three phases of adoption of the new guidance (Impact Assessment, Convert and Implement). We will adopt the new standard on its effective date January 1, 2018 using the modified retrospective method of adoption.

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842) "Leases", which supersedes the lease recognition requirements in Accounting Standards Codification Topic 840, "Leases". Under ASU No. 2016-02 lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. ASU No. 2016-02 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, and there are certain optional practical expedients that an entity may elect to apply. Full retrospective application is prohibited and early adoption by public entities is permitted. We are still in the process of evaluating the impact of ASU 2016-02 on our consolidated financial statements as we will be required to reflect our various lease obligations and associated asset use rights on our consolidated balance sheets. The adoption may also impact our debt covenant compliance and may require us to modify or replace certain of our existing information systems. We will adopt the guidance on its effective date January 1, 2019.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 320): Classification of Cash Receipts and Cash Payments”, which addresses eight specific cash flow issues with the objective of reducing the existing diversity of presentation and classification in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal periods. The retrospective transition method of adoption is required unless it is impracticable. Early adoption is permitted, but only if all aspects are adopted in the same period. We are still evaluating the impact of this update on our consolidated statements of cash flows and the related disclosures. We will adopt the standard upon its effective date January 1, 2018.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”, which aims to improve the disclosure of the change during the period in total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash or restricted cash equivalents should be included

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with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts on the statement of cash flows. The update is effective beginning first quarter of 2018. Early adoption is permitted, but it must occur in the first interim period. Any adjustments required in early adoption of this update should be reflected as of the beginning of the fiscal year that includes the interim period and should be applied using a retrospective transition method to each period. We have evaluated the impact of this update and believe it will have a material impact on our consolidated statement of cash flows and related disclosures, upon our effective date of adoption January 1, 2018.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” The guidance provides criteria for use in determining when to conclude an integrated “set of assets and activities (as defined in the original guidance) being acquired or disposed in a transaction is not a business. Where the criteria are not met, more stringent screening has been provided to define a set as a business without an output, as more narrowly defined within the guidance. ASU No. 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective date. Early adoption is permitted. We are still in the process of evaluating the guidance and can not determine the impact of this guidance on our consolidated financial statements and related disclosures. We will adopt ASU 2017-01 on its effective date of January 1, 2018.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, in which the guidance on testing for goodwill was updated by the elimination of Step 2 in the determination on whether goodwill should be considered impaired. The annual and/or interim assessments are still required to be completed. Further, the guidance eliminates the requirement to assess reporting units with zero or negative carrying values, however, the carrying values for all reporting units must be disclosed. ASU No. 2017-04 is effective for annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures and will adopt the guidance on its effective date January 1, 2020 using the required prospective method

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Pursuant to this ASU, an entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified (if the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification); (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. ASU No. 2017-09 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted, including adoption in any interim period. This update should be applied prospectively to an award modified on or after the adoption date. The Partnership is currently evaluating the impact of this update on our consolidated financial statements and related disclosures and will adopt the guidance on our effective date January 1, 2018.

3. Acquisitions

JP Energy Partners LP

On March 8, 2017, we completed the acquisition of JPE, a legal entity controlled by ArcLight affiliates, in a unit-for-unit merger. In connection with the transaction, each JPE common or subordinated unit held by investors not affiliated with ArcLight was converted into the right to receive 0.5775 of a Partnership common unit, and each JPE common or subordinated unit held by ArcLight affiliates was converted into the right to receive 0.5225 of a Partnership common unit. We issued a total of 20.2 million of common units to complete the acquisition, including 9.8 million common units to ArcLight affiliates.

As both we and JPE were controlled by ArcLight affiliates, the acquisition represented a transaction among entities under common control. Although we were the legal acquirer, JPE was considered the acquirer for accounting purposes as ArcLight obtained control of JPE prior to obtaining control of us on April 15, 2013. As a result, we adjusted our historical financial statements to reflect ArcLight's acquisition cost basis of us back to April 15, 2013. In addition, the accompanying financial statements and related notes have been retrospectively adjusted to include the historical results of JPE prior to the effective date of the JPE acquisition. The accompanying financial statements and related notes present the combined financial position, results of operations, cash flows and equity of JPE at historical cost.

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JPE owns, operates and develops a diversified portfolio of midstream energy assets with three business segments (i) crude oil pipelines and storage, (ii) refined products terminals and storage and (iii) NGL distribution and sales, which together provide midstream infrastructure solutions for the growing supply of crude oil, refined products and NGLs, in the United States.

Acquisition of Viosca Knoll

On June 2, 2017 (“acquisition date”), we acquired 100% of the Viosca Knoll System (“Viosca Knoll”) from Genesis Energy, L.P. for total consideration of approximately \$32 million in cash. The Viosca Knoll System serves producing fields located in the Main Pass, Mississippi Canyon and Viosca Knoll areas of the Gulf of Mexico and connects to several major delivery pipelines including the Partnership’s High Point and Destin pipelines. Viosca Knoll will provide greater East-West Gulf connectivity, through the connection of the High Point Gas Transmission system and the Destin Pipeline, both controlled by us. The Viosca Knoll acquisition was funded with the Partnership’s revolving credit facility and Viosca Knoll was added to our Offshore pipeline and services segment.

In accordance with ASC Topic 805 - Business Combinations, we accounted for Viosca Knoll acquisition as an acquisition of a business, with the Partnership as the acquirer. ASC 805 requires, among other things, that the consideration transferred be measured at the current market price as of the acquisition date and the asset acquired and liabilities assumed be measured at their fair value as of the acquisition date. The total consideration transferred of \$32 million cash was allocated 100% to Viosca Knoll’s assets as shown below.

The following table presents our aggregated preliminary allocation of the purchase price based on estimated fair values of assets acquired as of June 30, 2017 (in thousands):

	Purchase Price Allocation
Property, plant and equipment:	
Pipelines	\$ 12,266
Equipment	16,484
Total property, plant and equipment	28,750
Intangible assets	3,250
Total cash consideration	\$ 32,000

The purchase price allocation is subject to the measurement period that ends at the earlier of twelve months from the acquisition date or when information becomes available.

Pro Forma Financial Information

The following table presents selected unaudited pro forma information for the Partnership assuming the acquisition of Viosca Knoll had occurred as of January 1, 2016. This pro forma information does not purport to represent what the Partnership’s actual results would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods.

The unaudited pro forma financial information consists of the following (in thousands):

Six Months Ended

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	June 30, 2017	June 30, 2016
Revenue	\$396,254	\$333,837
Income (loss) from continuing operations	\$(56,407)	\$(17,962)

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4. Inventory

Inventory consists of the following (in thousands):

	June 30, December 31,	
	2017	2016
Crude oil	\$ 2,741	\$ 1,216
NGLs	3,207	3,482
Refined products	413	291
Materials, supplies and equipment	1,744	1,787
Total inventory	\$ 8,105	\$ 6,776

5. Other Current Assets

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

	June 30, December 31,	
	2017	2016
Prepaid insurance	\$5,109	\$ 9,702
Insurance receivables	6,162	2,895
Due from related parties	20,853	4,805
Other receivables	2,363	2,998
Risk management assets	1,772	964
Other assets	3,396	6,303
Total other current assets	\$39,655	\$ 27,667

6. Risk Management Activities

We are exposed to certain market risks related to the volatility of commodity prices and changes in interest rates. To monitor and manage these market risks, we have established comprehensive risk management policies and procedures. We do not enter into derivative instruments for any purpose other than hedging commodity price risk, interest rate risk, and weather risk. We do not speculate using derivative instruments.

Commodity Derivatives

Our normal business activities expose us to risks associated with changes in the market price of crude oil and natural gas, among other commodities. Management believes it is prudent to limit our exposure to these risks, which include our (i) propane purchases, (ii) pre-existing or anticipated physical crude oil and refined product sales, and (iii) certain crude oil held in inventory. To meet this objective, we use a combination of fixed price swap and forward contracts. Our forward contracts that qualify for the Normal Purchase Normal Sale (“NPNS”) exception under GAAP are recognized when the underlying physical transaction is delivered. While these contracts are considered derivative financial instruments under ASC 815, Derivatives and Hedging, they are not recorded at fair value, but on an accrual basis of accounting. If it is determined that a transaction designated as NPNS no longer meets the scope exception, the fair value of the related contract is recorded on the balance sheet (as an asset or liability) and the difference between the fair value and the contract amount is immediately recognized through earnings. We measure our commodity derivatives at fair value using the income approach which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations utilize indirectly observable (“Level 2”) inputs, including contractual terms and commodity prices observable at commonly quoted intervals.

The following table summarizes the net notional volumes of our outstanding commodity-related derivatives, excluding those contracts that qualified for the NPNS exception as of June 30, 2017 and December 31, 2016, none of

which were designated as hedges for accounting purposes.

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	June 30, 2017		December 31, 2016	
Commodity Swaps	Volume	Maturity	Volume	Maturity
Propane Fixed Price (gallons)	10,892,201	July 1, 2017 - December 31, 2019	4,364,880	January 31, 2017 - November 30, 2018
Crude Oil Fixed Price (barrels)	68,000	July 1, 2017 - July 31, 2017	—	—
Crude Oil Basis (barrels)	—	—	180,000	January 25, 2017 - March 25, 2017

Interest Rate Swaps

To manage the impact of the interest rate risk associated with our Credit Agreement, as defined in Note 12 - Debt Obligations, we enter into interest rate swaps from time to time, effectively converting a portion of the cash flows related to our long-term variable rate debt into fixed rate cash flows.

Our outstanding interest rate swap contracts' fair value consist of the following (in thousands):

Notional Amount	Term	As of June 30, 2017	As of December 31, 2016
\$100,000	July 1, 2017 through December 29, 2017	\$ 119	\$ —
\$100,000	December 29, 2017 through January 29, 2019	208	—
\$200,000	July 1, 2017 through September 3, 2019	1,711	1,912
\$100,000	January 1, 2018 through December 31, 2021	2,385	3,090
\$150,000	January 1, 2018 through December 31, 2022	3,944	5,219
		\$8,367	\$ 10,221

The fair value of our interest rate swaps was estimated using a valuation methodology based upon forward interest rates and 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, which represent Level 2 inputs in the valuation hierarchy, are obtained from independent pricing services and we have made no adjustments to those prices.

Weather Derivative

In the second quarter of 2017, we entered into a yearly weather derivative to mitigate the impact of potential unfavorable weather on our operations under which we could receive payments totaling up to \$30.0 million in the event that a hurricane of certain strength passes through the areas identified in the derivative agreement. The weather derivatives, which are accounted for using the intrinsic value method, were entered into with a single counterparty, and we were not required to post collateral.

We paid \$1.1 million and \$1.0 million in premiums during the six months ended June 30, 2017 and 2016, respectively. Premiums are amortized to Direct operating expenses on a straight-line basis over the 1 year term of the contract. Unamortized amounts associated with the weather derivatives were approximately \$1.1 million and \$0.4 million as of June 30, 2017 and December 31, 2016, respectively, and are included in Other current assets on the condensed consolidated balance sheets.

The following table summarizes the fair values of our derivative contracts (before netting adjustments) included in the condensed consolidated balance sheets (in thousands):

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Type	Balance Sheet Classification	Asset Derivatives		Liability Derivatives	
		June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Commodity swaps	Other current assets	\$234	\$ 607	\$ —	\$ —
Commodity swaps	Accrued expenses and other current liabilities	—	—	(404)	(1)
Commodity swaps	Risk management assets - long term	—	37	—	—
Commodity swaps	Other liabilities	—	—	(196)	(1)
Interest rate swaps	Other current assets	663	—	—	—
Interest rate swaps	Accrued expenses and other current liabilities	—	—	—	(252)
Interest rate swaps	Risk management assets- long term	7,704	10,628	—	—
Weather derivatives	Other current assets	\$1,110	\$ 429	\$ —	\$ —

The following tables present the fair value of our recognized derivative assets and liabilities on a gross basis and amounts offset in the condensed consolidated balance sheets that are subject to enforceable master netting arrangements (in thousands):

Balance Sheet Classification	Gross Risk Management Position		Netting Adjustments		Net Risk Management Position	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Other current assets	\$2,006	\$ 1,036	\$(234)	\$ (72)	\$1,772	\$ 964
Risk management assets- long term	7,704	10,665	—	(1)	7,704	10,664
Total assets	\$9,710	\$ 11,701	\$(234)	\$ (73)	\$9,476	\$ 11,628
Accrued expenses and other liabilities	\$(404)	\$(253)	\$234	\$ 72	\$(170)	\$(181)
Other liabilities	(196)	(1)	—	1	(196)	—
Total liabilities	\$(600)	\$(254)	\$234	\$ 73	\$(366)	\$(181)

For each of the three and six months ended June 30, 2017 and 2016 the realized and unrealized gains (losses) associated with our commodity, interest rate and weather derivative instruments were recorded in our unaudited condensed consolidated statements of operations as follows (in thousands):

Statement of Operations Classification	Three months ended June 30,		Six months ended June 30,	
	Realized	Unrealized	Realized	Unrealized
2017				
Gains (losses) on commodity derivatives, net	\$260	\$(53)	\$960	\$(1,010)
Interest expense	—	(1,693)	(70)	(2,010)
Direct operating expenses	(218)	—	(475)	—
Total	\$42	\$(1,746)	\$415	\$(3,020)
2016				
Losses on commodity derivatives, net	\$(388)	\$(979)	\$(776)	\$(829)
Interest expense	(32)	(2,510)	(32)	(4,041)
Direct operating expenses	(231)	—	(451)	—
Total	\$(651)	\$(3,489)	\$(1,259)	\$(4,870)

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7. Property, Plant and Equipment, Net

Property, plant and equipment, net, consists of the following (in thousands):

	Useful Life (in years)	June 30, 2017	December 31, 2016
Land	Infinite	\$23,098	\$23,520
Construction in progress	N/A	46,657	131,448
Buildings and improvements	4 to 40	24,280	24,225
Transportation equipment	5 to 15	45,090	44,060
Processing and treating plants ⁽¹⁾	8 to 40	141,109	120,977
Pipelines, compressors and right-of-way ⁽¹⁾	3 to 40	909,963	804,815
Storage	3 to 40	210,291	210,579
Equipment	3 to 31	124,607	102,409
Total property, plant and equipment		1,525,095	1,462,033
Accumulated depreciation ⁽¹⁾		(358,674)	(317,030)
Property, plant and equipment, net		\$1,166,421	\$1,145,003

⁽¹⁾ The Partnership has revised the December 31, 2016 amounts above from those amounts previously reported in its Form 10-Q for the quarter ended March 31, 2017 to primarily decrease the amount for Processing and treating plants by approximately \$16 million and to increase the amount for Pipelines, compressors and rights-of-way by approximately \$49.9 million, with the offsetting change to Accumulated depreciation of approximately \$33.9 million.

At June 30, 2017 and December 31, 2016, gross property, plant and equipment included \$253.5 million and \$291.1 million, respectively, related to our FERC regulated interstate and intrastate assets.

Depreciation expense totaled \$21.3 million and \$20.8 million for the three months ended June 30, 2017 and 2016, respectively, and \$42.9 million and \$40.5 million for the six months ended June 30, 2017 and 2016, respectively.

Capitalized interest was \$0.5 million for each of the three months ended June 30, 2017 and 2016, and \$1.5 million and \$1.0 million for the six months ended June 30, 2017 and 2016, respectively.

8. Goodwill and Intangible Assets, Net

Goodwill as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Liquid Pipelines and Services ⁽¹⁾	\$113,669	\$113,669
Terminalling Services ⁽¹⁾	88,466	88,466
Propane Marketing Services	15,363	15,363
Total	\$217,498	\$217,498

⁽¹⁾ The Partnership has revised the December 31, 2016 amounts by segment above from those amounts previously reported in its Form 10-Q for the quarter ended March 31, 2017 to increase the Terminalling Services segment by approximately \$11 million with the offset being to decrease the Liquid Pipelines and Services segment by the same amount.

Intangible assets, net, consists of customer relationships, dedicated acreage agreements, collaborative arrangements, noncompete agreements and trade names. These intangible assets have definite lives and are subject to amortization on a straight-line basis over their economic lives, currently ranging from approximately 5 years to 44 years. Intangible

assets, net, consist of the following (in thousands):

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	June 30, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	\$ 133,503	\$ (35,834)	\$ 97,669
Customer contracts	98,844	(43,142)	55,702
Dedicated acreage	53,350	(5,328)	48,022
Collaborative arrangements	11,884	(990)	10,894
Noncompete agreements	3,423	(3,250)	173
Other	751	(221)	530
Total	\$ 301,755	\$ (88,765)	\$ 212,990

	December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	\$ 133,503	\$ (31,471)	\$ 102,032
Customer contracts	95,594	(33,414)	62,180
Dedicated acreage	53,350	(4,439)	48,911
Collaborative arrangements	11,884	(601)	11,283
Noncompete agreements	3,423	(3,086)	337
Other	751	(211)	540
Total	\$ 298,505	\$ (73,222)	\$ 225,283

Amortization expense related to our intangible assets totaled \$8.3 million and \$5.2 million for the three months ended June 30, 2017 and 2016, respectively, and \$15.5 million and \$10.3 million for the six months ended June 30, 2017 and 2016, respectively.

9. Investment in unconsolidated affiliates

The following table presents the activity in our equity method investments in unconsolidated affiliates (in thousands):

	Delta House ⁽¹⁾		Emerald Transactions ⁽²⁾				MPOG ⁽³⁾	Total
	FPS	OGL	Destin	Tri-States	Okeanos	Wilprise		
Ownership % at December 31, 2016 and June 30, 2017	20.1	% 20.1	% 49.7	% 16.7	% 66.7	% 25.3	% 66.7	%
Balances at December 31, 2016	\$ 64,483	\$ 25,450	\$ 110,882	\$ 55,022	\$ 27,059	\$ 4,944	\$ 4,148	\$ 291,988
Earnings in unconsolidated affiliates	15,529	6,571	5,116	2,161	3,692	408	(523)	32,954
Distributions	(8,753)	(7,137)	(12,119)	(2,626)	(6,667)	(392)	(700)	(38,394)
Balances at June 30, 2017	\$ 71,259	\$ 24,884	\$ 103,879	\$ 54,557	\$ 24,084	\$ 4,960	\$ 2,925	\$ 286,548

⁽¹⁾ Represents direct and indirect ownership interests in Class A Units.

⁽²⁾ Represents our Emerald equity method investments which were acquired in the second quarter of 2016.

(3) Main Pass Oil Gathering.

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The following tables present the summarized combined financial information for our equity investments (amounts represent 100% of investee financial information) (in thousands):

Balance Sheets:	June 30, December 31,	
	2017	2016
Current assets	\$ 105,211	\$ 120,167
Non-current assets	1,337,201	1,369,492
Current liabilities	121,966	133,085
Non-current liabilities	\$ 489,080	\$ 541,312

Statements of Operations:	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 105,373	\$ 89,541	\$ 203,366	\$ 184,757
Gross profit	96,442	83,045	185,075	169,668
Net income	\$ 76,414	\$ 67,937	\$ 145,532	\$ 136,387

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consists of the following (in thousands):

	June 30, December 31,	
	2017	2016
Due to related parties	\$ 15,694	\$ 4,072
Accrued interest	8,470	5,743
Legal accrual	8,192	—
Capital expenditures	7,240	14,499
Convertible preferred unit distributions	6,735	7,103
Current portion of asset retirement obligation	6,495	6,499
Additional Blackwater acquisition consideration	5,000	5,000
Employee compensation	4,967	10,804
Taxes payable	3,902	1,688
Royalties payable	3,536	3,926
Customer deposits	3,092	3,080
Gas imbalances payable	1,580	1,098
Transaction costs	1,179	3,000
Deferred financing costs	—	2,743
Recoverable gas costs	238	1,126
Other	10,706	10,903
Total accrued expenses and other current liabilities	\$ 87,026	\$ 81,284

11. Asset Retirement Obligations

We record a liability for the fair value of asset retirement obligations and conditional asset retirement obligations (collectively, referred to as “AROs”) that we can reasonably estimate, on a discounted basis, in the period in which the liability is incurred. Generally, the fair value of the liability is calculated using discounted cash flow techniques and based on internal estimates and assumptions related to (i) future retirement costs, (ii) future inflation rates, and (iii) credit-adjusted risk-free interest rates. Significant increases or decreases in the assumptions would result in a significant change to the fair value measurement.

Certain assets related to our Offshore Pipelines and Services segment have regulatory obligations to perform remediation, and in some instances, dismantlement and removal activities when the assets are abandoned. These AROs include varying levels of activity including disconnecting inactive assets from active assets, cleaning and purging assets, and in some cases, completely removing the assets and returning the land to its original state. These assets have been in existence for many years and with regular maintenance will continue to be in service for many years to come. It is not possible to predict when demand for these transmission

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services will cease, however, we do not believe that such demand will cease for the foreseeable future. The majority of the current portion of our AROs is related to the retirement of the Midla pipeline discussed in Note 17 - Commitments and Contingencies.

The following table presents activity in our asset retirement obligations for the six months ended June 30, 2017 (in thousands):

Non-current balance	\$44,363
Current balance	6,499
Balances at December 31, 2016	\$50,862
Expenditures	(49)
Accretion expense	984
Balances at June 30, 2017	\$51,797
Less: current portion	6,495
Noncurrent asset retirement obligation	\$45,302

We are required to establish security against potential obligations relating to the abandonment of certain transmission assets that may be imposed on the previous owner by applicable regulatory authorities. We have deposited \$5.0 million with a third party to secure our performance on these potential obligations. These deposits are included in Restricted cash-long term in our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016.

12. Debt Obligations

Our outstanding debt consists of the following (in thousands):

	June 30, 2017	December 31, 2016
Revolving credit facility	\$678,042	\$888,250
8.5% Senior unsecured notes, due 2021	300,000	300,000
3.77% Senior secured notes, due 2031 (non-recourse)	58,922	60,000
Other debt ⁽²⁾	685	3,809
Total debt obligations	1,037,649	1,252,059
Unamortized debt issuance costs ⁽¹⁾	(9,776)	(11,036)
Total debt	1,027,873	1,241,023
Less: Current portion, including unamortized debt issuance costs	(1,556)	(5,485)
Long term debt	\$1,026,317	\$1,235,538

⁽¹⁾ Unamortized debt issuance costs related to the revolving credit facility are included in our condensed consolidated balance sheets in Other assets, net.

⁽²⁾ Other debt includes capital lease and miscellaneous long-term obligations, which are reported in Current portion of debt and Other liabilities line items on our condensed consolidated balance sheets.

Revolving Credit Facility

On March 8, 2017, we entered into the Second Amended and Restated Credit Agreement with Bank of America N.A., as Administrative Agent, Collateral Agent and L/C Issuer, Wells Fargo Bank, National Association, as Syndication Agent, and other lenders (the "Credit Agreement") which increased our borrowing capacity from \$750.0 million to \$900.0 million and provided for an accordion feature that will permit, subject to customary conditions, the borrowing capacity under the facility to be increased to a maximum of \$1.1 billion. 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 (i) the Federal Funds Rate, plus 0.50%, (ii) 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 (iii) the Eurodollar Rate plus 1.00%, plus a margin ranging from 1.00% to 2.25% depending on the total leverage ratio then in effect. We also pay a commitment fee of 0.50% per annum on the undrawn portion of the revolving loan under the Credit Agreement. The Credit Agreement matures on September 5, 2019.

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The Credit Agreement contains certain financial covenants that are applicable as of the end of any fiscal quarter, including a consolidated total leverage ratio which requires our indebtedness not to exceed 5.00 times adjusted consolidated EBITDA (except for the fiscal quarters ended March 31, 2017, and the subsequent two quarters, at which time the covenant is increased to 5.50 times adjusted consolidated EBITDA), a consolidated secured leverage ratio which requires our secured indebtedness not to exceed 3.50 times adjusted consolidated EBITDA, and a minimum interest coverage ratio that requires our adjusted consolidated EBITDA to exceed consolidated interest charges by not less than 2.50 times. In addition to the financial covenants described above, the 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).

As of June 30, 2017, we had approximately \$678.0 million of borrowings and \$32.3 million of letters of credit outstanding under the Credit Agreement resulting in \$189.6 million of available borrowing capacity.

As of June 30, 2017, our consolidated total leverage ratio was 4.79 and our interest coverage ratio was 5.04, which were both in compliance with the related requirements of our Credit Agreement. Our ability to maintain compliance with the leverage and interest coverage ratios included in the Credit Agreement may be subject to, among other things, the timing and success of initiatives we are pursuing, which may include expansion capital projects, acquisitions or drop down transactions, as well as the associated financing for such initiatives.

The carrying value of amounts outstanding under our Credit Agreement approximates the related fair value, as interest charges vary with market rates conditions.

JPE Revolver

JPE had a \$275.0 million revolving loan, which included a sub-limit of up to \$100.0 million for letters of credit with Bank of America, N.A. (the “JPE Revolver”). The JPE Revolver was scheduled to mature on February 12, 2019, but on March 8, 2017, in connection with the closing of the JPE acquisition, the \$199.5 million outstanding balance of the JPE Revolver was paid off in full and terminated.

For the six months ended June 30, 2017 and 2016, the weighted average interest rate on borrowings under our Credit Agreement and the JPE Revolver was approximately 4.67% and 4.15%, respectively.

8.50% Senior Unsecured Notes

On December 28, 2016, we and American Midstream Finance Corporation, our wholly-owned subsidiary (the “Issuers”), completed the issuance and sale of \$300 million in aggregate principal amount of senior notes due 2021 (the “8.50% Senior Notes”). The 8.50% Senior Notes are jointly and severally guaranteed by certain of our existing direct and indirect wholly owned subsidiaries that guarantee our Credit Agreement. The 8.50% Senior Notes rank equal in right of payment with all existing and future senior indebtedness of the Issuers, and senior in right of payment to any future subordinated indebtedness of the Issuers. The 8.50% Senior Notes were issued at par and provided approximately \$294.0 million in proceeds, after deducting the initial purchasers' discount of \$6.0 million. This amount was deposited into escrow pending completion of the JPE Acquisition and was included in Restricted cash-long term on our consolidated balance sheet as of December 31, 2016. We also incurred \$2.7 million of direct issuance costs resulting in net proceeds related to the 8.50% Senior Notes of \$291.3 million.

Upon the closing of the JPE Acquisition and the satisfaction of other related conditions the restricted cash was released from escrow on March 8, 2017 and used to repay and terminate the JPE Revolver and reduce borrowings under the Credit Agreement.

The 8.50% Senior Notes will mature on December 15, 2021 with interest payable in cash semi-annually in arrears on June 15 and December 15, commencing June 15, 2017.

As of June 30, 2017, the fair value of the 8.50% Senior Notes was \$303.3 million. This estimate was based on similar private placement transactions along with changes in market interest rates which represent a Level 2 measurement.

3.77% Senior Secured Notes

On September 30, 2016, Midla Financing, LLC (“Midla Financing”), American Midstream (Midla) LLC (“Midla”), and Mid Louisiana Gas Transmission LLC (“MLGT and together with Midla, the “Note Guarantors”) entered into a Note Purchase and Guaranty Agreement (the “Note Purchase Agreement”) with certain institutional investors (the “Purchasers”) whereby Midla Financing issued \$60.0 million in aggregate principal amount of 3.77% Senior Notes (non-recourse) due June 30, 2031.

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The Note Purchase Agreement includes customary representations and warranties, affirmative and negative covenants (including financial covenants), and events of default that are customary for a transaction of this type. Many of these provisions apply not only to Midla Financing and the Note Guarantors, but also to American Midstream Midla Financing Holdings, LLC (“Midla Holdings”), a wholly owned subsidiary of the Partnership and the sole member of Midla Financing. Among other things, Midla Financing must maintain a debt service reserve account containing six months of principal and interest payments, and Midla Financing and the Note Guarantors (including any entities that become guarantors under the terms of the Note Purchase Agreement) are restricted from making distributions (a) until June 30, 2017, (b) unless the debt service coverage ratio is not less than, and is not projected for the following 12 calendar months to be less than, 1.20:1.00, and (c) unless certain other requirements are met.

In connection with the Note Purchase Agreement, the Note Guarantors guaranteed the payment in full of all Midla Financing’s obligations under the Note Purchase Agreement. Also, Midla Financing and the Note Guarantors granted a security interest in substantially all of their tangible and intangible personal property, including the membership interests in each Note Guarantor held by Midla Financing, and Financing Holdings pledged the membership interests in Midla Financing to the Collateral Agent.

Net proceeds from the 3.77% Senior Notes are restricted and are to be used (1) to fund project costs incurred in connection with (a) the construction of the Midla-Natchez Line (b) the retirement of Midla’s existing 1920’s vintage pipeline (c) the move of our Baton Rouge operations to the MLGT system (d) the reconfiguration of the DeSiard compression system and all related ancillary facilities, (2) to pay transaction fees and expenses in connection with the issuance of the 3.77% Senior Notes, and (3) for other general corporate purposes of Midla Financing.

As of June 30, 2017, the fair value of the 3.77% Senior Notes was \$55.5 million. This estimate was based on similar private placement transactions along with changes in market interest rates which represent a Level 2 measurement.

13. Convertible Preferred Units

Our convertible preferred units consist of the following (in thousands):

	Series A	Series C	Series D	Total
	Units \$	Units \$	Units \$	\$
December 31, 2016	10,107 \$181,386	8,792 \$118,229	2,333 \$34,475	\$334,090
Paid in kind unit distributions	293 4,105	— —	— —	4,105
June 30, 2017	10,400 \$185,491	8,792 \$118,229	2,333 \$34,475	\$338,195

Affiliates of our General Partner hold and participate in quarterly distributions on our convertible preferred units, with such distributions being made in cash, paid-in-kind units or a combination thereof, at the election of the Board of Directors of our General Partner, although quarterly distribution on our Series D Units will only be paid in cash. The convertible preferred unitholders have the right to receive cumulative distributions in the same priority and prior to any other distributions made in respect of any other partnership interests.

To the extent that any portion of a quarterly distribution on our convertible preferred units to be paid in cash exceeds the amount of cash available for such distribution, the amount of cash available will be paid to our convertible preferred unitholders on a pro rata basis while the difference between the distribution and the available cash will become arrearages and accrue interest until paid.

Series A-1 Convertible Preferred Units

On April 15, 2013, we, our General Partner and AIM Midstream Holdings entered into agreements with HPIP, pursuant to which HPIP acquired 90% of our General Partner and all of our subordinated units from AIM Midstream Holdings and contributed the High Point System and \$15.0 million in cash to us in exchange for 5,142,857 of our Series A-1 Units.

The Series A-1 Units receive distributions prior to distributions to our common unitholders. The distributions on the Series A-1 Units are equal to the greater of \$0.4125 per unit or the declared distribution to common unitholders. The Series A-1 Units may be converted into common units, subject to customary anti-dilutive adjustments, at the option of the unitholders on or any time after January 1, 2014. As of June 30, 2017, the conversion price is \$15.69 and the conversion ratio is 1 to 1.1054.

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Series A-2 Convertible Preferred Units

On March 30, 2015 and June 30, 2015, we entered into two Series A-2 Convertible Preferred Unit Purchase Agreements with Magnolia Infrastructure Partners ("Magnolia") an affiliate of HPIP pursuant to which we issued, in separate private placements, newly-designated Series A-2 Units (the "Series A-2 Units") representing limited partnership interests in the Partnership. As a result, the Partnership issued a total of 2,571,430 Series A-2 Units for approximately \$45.0 million in aggregate proceeds during the year ended December 31, 2015. 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-1 Units (together with the Series A-2 Units, the "Series A Units"), with such distributions being made in cash or with paid-in-kind Series A Units at the election of the Board of Directors of our General Partner.

On July 27, 2015, we amended our Partnership Agreement to grant us the right (the "Call Right") to require the holders of the Series A-2 Units to sell, assign and transfer all or a portion of the then outstanding Series A-2 Units to us for a purchase price of \$17.50 per Series A-2 Unit (subject to appropriate adjustment for any equity distribution, subdivision or combination of equity interests in the Partnership). We may exercise the Call Right at any time, in connection with our or our affiliate's acquisition of assets or equity from ArcLight Energy Partners Fund V, L.P., or one of its affiliates, for a purchase price in excess of \$100 million. We may not exercise the Call Right with respect to any Series A-2 Units that a holder has elected to convert into common units on or prior to the date we have provided notice of our intent to exercise the Call Right, and we may also not exercise the Call Right if doing so would result in a default under any of our or our affiliates' financing agreements or obligations. As of June 30, 2017, the conversion price is \$15.69 and the conversion ratio is 1 to 1.1054.

As conversion is at the option of the holder and redemption is contingent upon a future event which is outside the control of the Partnership, the Series A-1 and A-2 Units have been classified as mezzanine equity in the condensed consolidated balance sheets.

Third Amendment to Partnership Agreement

On March 8, 2017, the Partnership executed Amendment No. 3 to our Fifth Amended and Restated Partnership Agreement (as amended, the "Partnership Agreement"), which amends the distribution payment terms of the Partnership's outstanding Series A Preferred Units to provide for the payment of a number of Series A payment-in-kind ("PIK") preferred units for the quarter (the "Series A Preferred Quarterly Distribution") in which the JPE Acquisition is consummated (which is the quarter ended March 31, 2017) and each quarter thereafter equal to the quotient of (i) the greater of (a) \$0.4125 and (b) the "Series A Distribution Amount," as such term is defined in the Partnership Agreement, divided by (ii) the Series A Adjusted Issue Price, as such term is defined in the Partnership Agreement. However, in our General Partner's discretion, which determination shall be made prior to the record date for the relevant quarter, the Series A Preferred Quarterly Distribution may be paid as a combination (x) an amount in cash up to the greater of (1) \$0.4125 and (2) the Series A Distribution Amount, and (y) a number of Series A Preferred Units equal to the quotient of (a) the remainder of (i) the greater of (I) \$0.4125 and (II) the Series A Distribution Amount less (ii) the amount of cash paid pursuant to clause (x), divided by (b) the Series A Adjusted Issue Price. This calculation results in a reduced Series A Preferred Quarterly Distribution, which was previously calculated under the Partnership Agreement using \$0.50 in place of \$0.4125 in the preceding calculations.

Series C Convertible Preferred Units

On April 25, 2016, we issued 8,571,429 Series C Units to an ArcLight affiliate in connection with the purchase of membership interests in certain midstream entities.

The Series C Units have voting rights that are identical to the voting rights of the common units and will vote with the common units as a single class on an as converted basis, with each Series C Unit initially entitled to one vote for each common unit into which such Series C Unit is convertible. The Series C Units also have separate class voting rights on any matter, including a merger, consolidation or business combination, that adversely affects, amends or modifies any of the rights, preferences, privileges or terms of the Series C Units. The Series C Units are convertible in whole or in part into common units at any time. The number of common units into which a Series C Unit is convertible will be an amount equal to the sum of \$14.00 plus all accrued and accumulated but unpaid distributions, divided by the conversion price. The sale of the Series C Units was exempt from registration under Securities Act pursuant to Rule 4(a)(2) under the Securities Act.

In the event that we issue, sell or grant any common units or convertible securities at an indicative per common unit price that is less than \$14.00 per common unit (subject to customary anti-dilution adjustments), then the conversion price will be adjusted according to a formula to provide for an increase in the number of common units into which Series C Units are convertible. As of June 30, 2017, the conversion price is \$13.79 and the conversion ratio is 1 to 1.0035.

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In connection with the issuance of the Series C Units, we issued the holders a warrant to purchase up to 800,000 common units at an exercise price of \$7.25 per common unit (the "Series C Warrant"). The Series C Warrant is subject to standard anti-dilution adjustments and is exercisable for a period of seven years.

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

As conversion is at the option of the holder and redemption is contingent upon a future event which is outside the control of the Partnership, the Series C Units have been classified as mezzanine equity in the condensed consolidated balance sheets.

Series D Convertible Preferred Units

On October 31, 2016, we issued 2,333,333 shares of our newly-designated Series D Units to an ArcLight affiliate at a price of \$15.00 per unit, less a 1.5% closing fee, in connection with the Delta House transaction during the third quarter 2016. The related agreement provides that if any of the Series D Units remain outstanding on June 30, 2017 (the "Series D Determination Date"), we will issue the holder of the Series D Units a warrant (the "Series D Warrant") to purchase 700,000 common units representing limited partnership interests with an exercise price of \$22.00 per common unit. The fair value of the conditional Series D Warrant at the time of issuance was immaterial. On July 14, 2017, the Partnership entered into an amendment to the related agreement and Amendment No. 5 to the Partnership Agreement, pursuant to which the Series D Warrant Determination Date was extended to August 31, 2017.

The Series D Units are entitled to quarterly distributions payable in arrears equal to the greater of \$0.4125 and the cash distribution that the Series D Units would have received if they had been converted to common units immediately prior to the beginning of the quarter. The Series D Units also have separate class voting rights on any matter, including a merger, consolidation or business combination, that adversely affects, amends or modifies any of the rights, preferences, privileges or terms of the Series D Units. The Series D Units are convertible in whole or in part into common units at the election of the holder of the Series D Unit at any time after June 30, 2017. As of the date of issuance, the conversion rate for each Series D Unit was one-to-one (the "Conversion Rate"). As of June 30, 2017, the conversion price is \$14.83 and the conversion ratio is 1 to 1.0035.

As conversion is at the option of the holder and redemption is contingent upon a future event which is outside the control of the Partnership, the Series D Units have been classified as mezzanine equity in the condensed consolidated balance sheets.

14. Partners' Capital

Our capital accounts are comprised of approximately 1.3% notional General Partner interests and 98.7% limited partner interests as of June 30, 2017. Our limited partners have limited rights of ownership as provided for under our Partnership Agreement and the right to participate in our distributions. Our General Partner manages our operations and participates in our distributions, including certain incentive distributions pursuant to the incentive distribution rights that are non-voting limited partner interests held by our General Partner. Pursuant to our Partnership Agreement, our General Partner participates in losses and distributions based on its interest. The General Partner's participation in the allocation of losses and distributions is not limited and therefore, such participation can result in a deficit to its capital account. As such, allocation of losses and distributions, including distributions for previous

transactions between entities under common control, has resulted in a deficit to the General Partner's capital account included in our condensed consolidated balance sheets.

Outstanding Units

The following table presents unit activity (in thousands):

	General Partner Interest	Limited Partner Interest
Balances at December 31, 2016	680	51,351
LTIP vesting	—	373
Issuance of GP units	273	—
Issuance of common units	—	21
Balances at June 30, 2017	953	51,745

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General Partner Units

In order to maintain the ownership percentage, we received proceeds of \$3.9 million from our General Partner as consideration for the issuance of 272,811 additional notional General Partner units for the six months ended June 30, 2017. For the six months ended June 30, 2016, we received proceeds of \$1.8 million for the issuance of 128,272 additional notional General Partner units.

Distributions

We made the following distributions (in thousands):

	Three months ended June 30, 2017		Six months ended June 30, 2016	
Series A Units				
Cash Paid	\$2,117	\$ —	-\$4,644	\$ —
Accrued	4,069	4,602	4,069	4,602
Paid-in-kind units	2,181	4,471	4,914	8,851
Series C Units				
Cash Paid	3,627	—	7,254	—
Accrued	3,627	2,249	3,627	2,249
Paid-in-kind units	—	—	—	—
Series D Units				
Cash Paid	963	—	1,925	—
Accrued	963	—	963	—
Limited Partner Units				
Cash Paid	21,390	24,782	46,303	51,782
General Partner Units				
Cash Paid	201	173	368	2,201
Summary				
Cash Paid	28,298	24,955	60,494	53,983
Accrued	8,659	6,851	8,659	6,851
Paid-in-kind units	2,181	4,471	4,914	8,851

The fair value of the paid-in-kind distributions was determined using the market and income approaches, requiring significant inputs which are not observable in the market and thus represent a Level 3 measurement as defined by ASC 820. Under the income approach, the fair value estimates for all periods presented were based on i) present value of estimated future contracted distributions, ii) option values ranging from \$0.02 per unit to \$3.39 per unit using a Black-Scholes model, iii) assumed discount rates ranging from 5.98% to 10.0% and iv) assumed growth rates of 1.0%.

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15. Net Loss per Limited Partner Unit

Net loss is allocated to the General Partner and the limited partners in accordance with their respective ownership percentages, after giving effect to distributions on our convertible preferred units and General Partner units, including incentive distribution rights. Unvested unit-based compensation 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 limited partners' net loss per common unit. Basic and diluted limited partners' net loss per common unit is calculated by dividing limited partners' interest in net loss by the weighted average number of outstanding limited partner units during the period.

As discussed in Note 1, the JPE Acquisition was a combination between entities under common control. As a result, prior periods were retrospectively adjusted to furnish comparative information. Accordingly, the prior period earnings combining both entities were allocated among our General Partners and common unitholders assuming JPE units were converted into our common units in the comparative historical periods.

The calculation of basic and diluted limited partners' net loss per common unit is summarized below (in thousands, except per unit amounts):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net loss from continuing operations	\$(27,702)	\$(9,481)	\$(56,583)	\$(19,545)
Less: Net income attributable to noncontrolling interests	1,462	954	2,765	951
Net loss from continuing operations attributable to the Partnership	(29,164)	(10,435)	(59,348)	(20,496)
Less:				
Distributions on Series A Units	4,069	4,602	8,367	9,073
Distributions on Series C Units	3,627	2,249	7,254	2,249
Distributions on Series D Units	963	—	1,925	—
General partner's distribution	277	173	476	2,201
General partner's share in undistributed loss	(784)	(400)	(1,541)	(818)
Net loss from continuing operations attributable to Limited Partners	(37,316)	(17,059)	(75,829)	(33,201)
Net loss from discontinued operations attributable to Limited Partners	—	—	—	(539)
Net loss attributable to Limited Partners	\$(37,316)	\$(17,059)	\$(75,829)	\$(33,740)
Weighted average number of common units used in computation of Limited Partners' net loss per common unit - basic and diluted	51,870	51,090	51,870	51,090
Limited Partners' net loss from continuing operations per unit	\$(0.72)	\$(0.33)	\$(1.46)	\$(0.65)
Limited Partners' net loss from discontinued operations per unit	—	—	—	(0.01)
Limited Partners' net loss per common unit ⁽¹⁾	\$(0.72)	\$(0.33)	\$(1.46)	\$(0.66)

⁽¹⁾ Potential common unit equivalents are antidilutive for all periods and, as a result, have been excluded from the determination of diluted limited partners' net loss per common unit.

16. Long-Term Incentive Plan

Our General Partner manages our operations and activities and employs the personnel who provide support to our operations. On November 19, 2015, the Board of Directors of our General Partner approved the Third Amended and Restated Long-Term Incentive Plan to, among other things, increase the number of common units authorized for issuance by 6,000,000 common units. On February 11, 2016, the unitholders approved the Third Amended and Restated Long-Term Incentive Plan (as amended and as currently in

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effect as of the date hereof, the “LTIP”). On March 9, 2017, an additional 312,716 common units were registered to be issued in relation to the converted JPE phantom units.

All such equity-based awards issued under the LTIP consist of phantom units, distribution equivalent rights (“DERs”) or option grants. DERs and options have been granted on a limited basis. Future awards may be granted at the discretion of the Compensation Committee and subject to approval by the Board of Directors of our General Partner.

Phantom Unit Awards.

Ownership in the phantom unit awards is subject to forfeiture until the vesting date. The LTIP is administered by the Compensation Committee of the Board of Directors of our General Partner, which at its discretion, may elect to settle such vested phantom units with a number of common units equivalent to the fair market value at the date of vesting in lieu of cash. Although our General Partner has the option to settle in cash upon the vesting of phantom units, our General Partner has not historically settled these awards in cash. Under the LTIP, phantom units typically vest over 3-4 years and do not contain any vesting requirements other than continued employment.

In December 2015, the Board of Directors of our General Partner approved a grant of 200,000 phantom units under the LTIP which contain DERs based on the extent to which our Series A Unitholders receive distributions in cash. These units will vest on the three year anniversary of the date of grant, subject to acceleration in certain circumstances.

The following table summarizes activity in our phantom unit-based awards for the six months ended June 30, 2017:

	Units	Weighted-Average Grant Date Fair Value Per Unit
Outstanding units at December 31, 2016	1,558,835	\$ 6.98
Granted	2,000	11.20
Forfeited	(7,643)	21.46
Vested	(479,130)	10.32
Outstanding units at June 30, 2017	1,074,062	\$ 5.39

The fair value of our phantom units, which are subject to equity classification, is based on the fair value of our common units at the grant date. Compensation expenses related to these awards were \$1.2 million and \$0.8 million for the three months ended June 30, 2017 and 2016, respectively, and were \$5.2 million and \$2.5 million for the six months ended June 30, 2017 and 2016, respectively, and are included in Corporate expenses and Direct operating expenses in our unaudited condensed consolidated statements of operations and Equity compensation expense in our unaudited condensed consolidated statements of changes in partners’ capital and noncontrolling interests.

The total fair value of units at the time of vesting was \$7.9 million and \$0.9 million for the six months ended June 30, 2017 and 2016, respectively.

17. Commitments and Contingencies

Legal proceedings

We are not currently party to any pending litigation or governmental proceedings, other than ordinary routine litigation incidental to our business. While the ultimate impact of any proceedings cannot be predicted with certainty,

our management believes that the resolution of any of our pending proceedings will not have a material adverse effect on our financial condition, results of operations or cash flows.

Environmental matters

We are subject to federal and state laws and regulations relating to the protection of the environment. Environmental risk is inherent to our 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 October 8, 2014, Midla reached an agreement in principle with its customers regarding the interstate pipeline that traverses Louisiana and Mississippi in order to provide continued service to its customers while addressing safety concerns with the existing pipeline. On April 16, 2015, FERC approved the stipulation and agreement (the “Midla Agreement”) relating to the October 8, 2014 regulatory matter allowing Midla to retire the existing 1920’s pipeline and replace it with the Midla-Natchez Line to serve existing residential, commercial, and industrial customers. Under the Midla Agreement, customers not served by the new Midla-Natchez Line will be connected to other interstate or intrastate pipelines, other gas distribution systems, or offered conversion to propane service. On June 29, 2015, we filed with FERC for authorization to construct the Midla-Natchez pipeline, which was approved on December 17, 2015. Construction commenced in the second quarter of 2016, and services commenced on March 31, 2017. Under the Midla Agreement, Midla executed long-term agreements seeking to recover its investment in the Midla-Natchez Line.

Acquisition related costs

As part of the JPE Acquisition, management of JPE communicated to its employees a severance plan. The plan includes termination benefits in the form of severance and accelerated vesting of phantom units for employees who render service through their respective termination date. We have estimated the fair value of the obligation to be approximately \$0.9 million, which has been recorded as of June 30, 2017.

18. Related Party Transactions

In December 2013, we acquired Blackwater Midstream Holdings, LLC (“Blackwater”) from an affiliate of ArcLight. The acquisition agreement included a provision whereby an ArcLight affiliate would be entitled to an additional \$5.0 million of merger consideration based on Blackwater meeting certain operating targets. During the third quarter of 2016, we determined that it was probable the operating targets would be met in early 2017 and recorded a \$5.0 million accrued distribution to the ArcLight affiliate which is included in Accrued expense and other current liabilities in the accompanying condensed consolidated balance sheets as of June 30, 2017.

Employees of our General Partner are assigned to work for us or other affiliates of our General Partner. Where directly attributable, all compensation and related expenses for these employees are charged directly by our General Partner to American Midstream, LLC, which, in turn, charges the appropriate subsidiary or affiliate. Our General Partner does not record any profit or margin on the expenses charged to us.

In connection with the JPE Acquisition closing during the first quarter of 2017, our General Partner agreed to provide quarterly financial support up to a maximum of \$25 million. The financial support will continue for eight (8) consecutive quarters following the closing of the acquisition, or if earlier, until \$25 million in support has been provided. We have utilized \$15.1 million of the financial support mentioned above.

During the second quarter of 2017, the Partnership received \$9.6 million from the General Partner as reimbursement of post-closing transition costs. Separate from the financial support described above, our General Partner also agreed to absorb \$9.6 million corporate overhead expenses, which were incurred by us in the first quarter of 2017, and subsequently paid the amount in the second quarter of 2017. These two cash amounts, and the \$3.8 million received related to the General Partner’s ownership percentage, totaled \$23.1 million which was presented as part of the contribution line item on our condensed consolidated statements of cash flows.

Republic Midstream, LLC (“Republic”), is an entity owned by ArcLight in which we charge a monthly fee of approximately \$0.1 million. The monthly fee reduced the Corporate expenses in the condensed consolidated statements of operations by \$0.3 million and \$0.7 million for each of the three and six months ended June 30, 2017 and June 30, 2016, respectively. As of June 30, 2017, we had a receivable balance due from Republic of \$1.4 million, which is included in the account Receivables from related parties which is part of Other current assets in the condensed consolidated balance sheets.

As of June 30, 2017 and December 31, 2016, we had \$2.3 million of payables balance, which is net of \$15.6 million of account payables and \$13.3 million of account receivables, and \$3.9 million of account payables, respectively, due to our General Partner, which has been recorded in Accrued expenses and other current liabilities and relates primarily to compensation. This payable is generally settled on a quarterly basis related to the foregoing transactions.

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On November 1, 2016, we became operator of the Destin and Okeanos pipelines and entered into an operating and administrative management agreements under which the affiliates pay a monthly fee for general and administrative services provided by us. In addition, the affiliates reimburse us for certain transition related expenses. For the six months ended June 30, 2017, we recognized \$1.2 million of management fee income. As of June 30, 2017 and December 31, 2016, we had an outstanding account receivables balance of \$5.8 million and \$2.2 million, respectively, which is recorded in Receivables from related parties and is part of Other current assets in the condensed consolidated balance sheets.

American Panther, LLC ("American Panther") is a 60%-owned subsidiary of ours which is consolidated for financial reporting purposes. Panther, a provider of midstream activities and services to the oil & gas industry in Texas, Louisiana and the Gulf Coast, is the 40% non-controlling interest owner of American Panther. Pursuant to a related party agreement which began in the second quarter of 2016, an affiliate of Panther, or Panther Offshore Gathering Systems, LLC, provides management services to American Panther in exchange for related fees, which in 2016 totaled \$0.8 million of Direct operating expenses and \$0.4 million of Corporate expenses in the unaudited condensed consolidated statements of operations. During the six months ended June 30, 2017, such management services totaled \$0.5 million of Direct operating expenses and \$0.3 million of Corporate expenses in the unaudited condensed consolidated statements of operations.

We enter into purchases and sales of natural gas and crude oil with a company whose chief financial officer is the brother of one of our executive officers. During the three months ended June 30, 2017, and 2016, we recognized revenue of \$1.8 million and \$0.7 million, respectively, while purchases from this company totaled \$1.2 million, and \$0.8 million, respectively. During the six months ended June 30, 2017, and 2016, we recognized revenue of \$2.5 million and \$1.6 million, respectively, while purchases from this company totaled \$2.6 million and \$1.8 million, respectively.

JP Energy Development ("JP Development"), an affiliate owned by Arclight, had a pipeline transportation business that provided crude oil pipeline transportation services to JPE's discontinued Mid-Continent Business. As a result of utilizing JP Development's pipeline transportation services, JPE incurred pipeline tariff fees of \$0.4 million for the six months ended June 30, 2016, which have been included in net loss from discontinued operations in the condensed consolidated statements of operations. We combined the cash flows from the Mid-Continent Business with the cash flows from continuing operations for all periods presented in the condensed consolidated statements of cash flows. As of December 31, 2015, we had a net receivable from JP Development of \$7.9 million, primarily as the result of the prepayments made in 2014 for the crude oil pipeline transportation services to be provided by JP Development. We recovered these amounts in full on February 1, 2016.

On February 1, 2016, JPE sold certain trucking and marketing assets in the Mid-Continent area to JP Development in connection with JP Development's sale of its GSPP pipeline assets to a third party.

During the year ended December 31, 2016, JPE's general partner agreed to absorb corporate overhead expenses incurred by us and not pass such expense through to us. We record non-cash contributions for these expenses in the quarters subsequent to when they were incurred, which was \$0 million and \$4 million for the three and six months ended June 30, 2017, respectively, and \$1.5 million and \$4.0 million for the three and six months ended June 30, 2016, respectively. JPE's general partner agreed to absorb \$3.5 million and \$5.0 million of such corporate overhead expenses in the three and six months ended June 30, 2016.

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19. Supplemental Cash Flow Information

Supplemental cash flows and non-cash transactions consist of the following (in thousands):

	Six months ended June 30,	
	2017	2016
Supplemental non-cash information		
Investing		
Increase (decrease) in accrued property, plant and equipment purchases	\$(7,259)	\$ 4,856
Financing		
Contributions from an affiliate holding limited partner interests	4,000	4,000
Issuance of Series C Units and Warrant in connection with the Emerald Transactions	—	120,000
Accrued distributions on convertible preferred units	8,659	6,851
Paid-in-kind distributions on convertible preferred units	4,914	8,851
Cancellation of escrow units	—	6,817
Accrued distribution from unconsolidated affiliates	—	4,360

20. Reportable Segments

During the first quarter of 2017, as a result of the acquisition of JPE described in Note 1, we realigned the composition of our reportable segments. Accordingly, we have restated the items of segment information for the three and six months ended June 30, 2016 to reflect this new segment adjustment.

Our operations are located in the United States and are organized into six reportable segments: 1) Gas Gathering and Processing Services, 2) Liquid Pipelines and Services, 3) Natural Gas Transportation Services, 4) Offshore Pipelines and Services, 5) Terminalling Services, and 6) Propane Marketing Services.

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

Liquid Pipelines and Services. Our Liquid Pipelines and Services segment provides transportation, purchase and sales of crude oil from various receipt points including lease automatic customer transfer (“LACT”) facilities and deliveries to various markets.

Natural Gas Transportation Services. Our Natural Gas Transportation Services segment transports and delivers natural gas from producing wells, receipt points, or pipeline interconnects for shippers and other customers, which include local distribution companies (“LDCs”), utilities and industrial, commercial and power generation customers.

Offshore Pipelines and Services. Our Offshore Pipelines and Services segment gathers and transports natural gas and crude oil from various receipt points to other pipeline interconnects, onshore facilities and other delivery points.

Terminalling Services. Our Terminalling Services segment provides above-ground leasable storage operations at our marine terminals that support various commercial customers, including commodity brokers, refiners and chemical manufacturers to store a range of products and also includes crude oil storage in Cushing, Oklahoma and refined products terminals in Texas and Arkansas.

Propane Marketing Services. Our Propane Marketing Services segment gathers, transports and sells natural gas liquids (NGLs). This is accomplished through cylinder tank exchange, sales through retail, commercial and wholesale distribution and through a fleet of trucks operating in the Eagle Ford and Permian basin areas.

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These segments are monitored separately by our chief operating decision maker (“CODM”) for performance and are consistent with our internal financial reporting. The CODM periodically reviews segment gross margin information for each segment to make business decisions. These segments have been identified based on the differing products and services, regulatory environment and the expertise required for these operations.

We define total segment gross margin as the sum of the segment gross margins for our Gas Gathering and Processing Services, Liquid Pipelines and Services, Natural Gas Transportation Services, Offshore Pipelines and Services, Terminalling Services and Propane Marketing Services segments.

We define segment gross margin in our Gas Gathering and Processing Services segment as total revenue plus unconsolidated affiliate earnings less unrealized gains or plus unrealized losses on commodity derivatives, construction and operating management agreement income and the cost of natural gas, crude oil and NGLs and condensate purchased.

We define segment gross margin in our Liquid Pipelines and Services segment as total revenue plus unconsolidated affiliate earnings less unrealized gains or plus unrealized losses on commodity derivatives and the cost of crude oil purchased in connection with fixed-margin arrangements. Substantially all of our gross margin in this segment is fee-based or fixed-margin, with little to no direct commodity price risk.

We define segment gross margin in our Natural Gas Transportation Services segment as total revenue plus unconsolidated affiliate earnings less the cost of natural gas purchased in connection with fixed-margin arrangements. Substantially all of our gross margin in this segment is fee-based or fixed-margin, with little to no direct commodity price risk.

We define segment gross margin in our Offshore Pipelines and Services segment as total revenue plus unconsolidated affiliate earnings less the cost of natural gas purchased in connection with fixed-margin arrangements. Substantially all of our gross margin in this segment is fee-based or fixed-margin, with little to no direct commodity price risk.

We define segment gross margin in our Terminalling Services segment as total revenue less direct operating expense which includes direct labor, general materials and supplies and direct overhead.

We define segment gross margin in our Propane Marketing Services segment as total revenue less purchases of natural gas, NGLs and condensate excluding non-cash charges such as non-cash unrealized gains or plus unrealized losses on commodity derivatives.

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A reconciliation from Segment Gross Margin to Net Income attributable to the Partnership for the periods presented is below (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Reconciliation of Segment Gross Margin to Net loss attributable to the Partnership:				
Gas Gathering and Processing Services segment gross margin	\$12,651	\$13,337	\$23,902	\$24,957
Liquid Pipelines and Services segment gross margin	6,683	9,432	13,152	15,284
Natural Gas Transportation Services segment gross margin	5,631	3,843	11,750	9,406
Offshore Pipelines and Services segment gross margin	25,623	20,558	51,426	33,819
Terminalling Services segment gross margin ⁽¹⁾	10,760	11,586		