

MARTIN MIDSTREAM PARTNERS LP

Form 10-K/A

March 14, 2008

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

**FORM 10-K/A**

**Mark One**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2007**

**OR**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number 000-50056**

**MARTIN MIDSTREAM PARTNERS L.P.**

(Exact name of registrant as specified in its charter)

Delaware

05-0527861

State or other jurisdiction of incorporation or  
organization

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

**4200 Stone Road Kilgore, Texas 75662**

(Address of principal executive offices) (Zip Code)

**903-983-6200**

(Registrant's telephone number, including area code)

**Securities Registered Pursuant to Section 12(b) of the Act:**

**NONE**

**Securities Registered Pursuant to Section 12(g) of the Act:**

Title of each class

Name of each exchange on which registered

Common Units representing  
limited partnership interests

NASDAQ

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

Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting

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

Yes  No

As of June 30, 2007, 11,986,808 common units were outstanding. The aggregate market value of the common units held by non-affiliates of the registrant as of such date approximated \$388,191,374. There were 12,837,480 of the registrant's common units and 1,701,346 of the registrant's subordinated units outstanding as of March 5, 2008.

**DOCUMENTS INCORPORATED BY REFERENCE: None.**

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EXPLANATORY NOTE

Martin Midstream Partners L.P. (the Partnership) is filing this Amendment No. 1 on Form 10-K/A to its Form 10-K for the fiscal year ended December 31, 2007 solely to correct certain typographical errors in the Financial Statements of Waskom Gas Processing Company for the year ended December 31, 2007, an affiliate accounted for by the equity method, which constituted a significant subsidiary. The line item natural gas processing and other revenues on the Statement of Income was inadvertently removed. Although this line item was deleted, the remainder of the Statement of Income was accurate, including all subtotals and totals. In addition, headings have been added to the Balance Sheet and the Statement of Income. This amendment also includes updated Exhibits 31.1, 31.2, 32.1 and 32.2 and a currently dated consent of the Company's independent auditors as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934. In all other respects, the Partnership's Form 10-K filed on March 6, 2008 remains unchanged. This Amendment No. 1 continues to speak as of the date of the original filing of the Form 10-K and the Partnership has not updated the disclosures contained therein to reflect any events that occurred at a later date.

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SIGNATURES

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Consent of KPMG LLP

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Certifications of Chief Financial Officer Pursuant to Section 302

Certification of Chief Executive Officer Pursuant to Section 906

Certification of Chief Financial Officer Pursuant to Section 906

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**PART I  
PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) Financial Statements and Schedules

(1) The following financial statements of Martin Midstream Partners L.P. and are included in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Changes in Capital for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Comprehensive Income for the years ended December 31, 2007 and 2006.

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

Notes to the Consolidated Financial Statements

(2) Financial Statements of Waskom Gas Processing Company for the year ended December 31, 2007, an affiliate accounted for by the equity method, which constituted a significant subsidiary.

(b) Exhibits

Reference is made to the Index to Exhibits beginning on page 4 for a list of all exhibits filed as part of this report.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized representative.

Martin Midstream Partners L.P.  
(Registrant)

By: Martin Midstream GP LLC  
Its General Partner

Date: March 14, 2008

By: /s/ Ruben S. Martin  
Ruben S. Martin  
*President and Chief Executive  
Officer*

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**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Name</b>
3.1	Certificate of Limited Partnership of Martin Midstream Partners L.P. (the Partnership ), dated June 21, 2002 (filed as Exhibit 3.1 to the Partnership s Registration Statement on Form S-1 (Reg. No. 333-91706), filed July 1, 2002, and incorporated herein by reference).
3.2	First Amended and Restated Agreement of Limited Partnership of the Partnership, dated November 6, 2002 (filed as Exhibit 3.1 to the Partnership s Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
3.3	Amendment No. 1 to First Amended and Restated Agreement of Limited Partnership of Martin Midstream Partners L.P., dated November 1, 2007 (filed as Exhibit 3.1 to the Partnership s Current Report on Form 8-K, filed November 2, 2007, and incorporated herein by reference).
3.4	Certificate of Limited Partnership of Martin Operating Partnership L.P. (the Operating Partnership ), dated June 21, 2002 (filed as Exhibit 3.3 to the Partnership s Registration Statement on Form S-1 (Reg. No. 333-91706), filed July 1, 2002, and incorporated herein by reference).
3.5	Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated November 6, 2002 (filed as Exhibit 3.2 to the Partnership s Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
3.6	Certificate of Formation of Martin Midstream GP LLC (the General Partner ), dated June 21, 2002 (filed as Exhibit 3.5 to the Partnership s Registration Statement on Form S-1 (Reg. No. 333-91706), filed July 1, 2002, and incorporated herein by reference).
3.7	Limited Liability Company Agreement of the General Partner, dated June 21, 2002 (filed as Exhibit 3.6 to the Partnership s Registration Statement on Form S-1 (Reg. No. 33-91706), filed July 1, 2002, and incorporated herein by reference).
3.8	Certificate of Formation of Martin Operating GP LLC (the Operating General Partner ), dated June 21, 2002 (filed as Exhibit 3.7 to the Partnership s Registration Statement on Form S-1 (Reg. No. 333-91706), filed July 1, 2002, and incorporated herein by reference).
3.9	Limited Liability Company Agreement of the Operating General Partner, dated June 21, 2002 (filed as Exhibit 3.8 to the Partnership s Registration Statement on Form S-1 (Reg. No. 333-91706), filed July 1, 2002, and incorporated herein by reference).
4.1	Specimen Unit Certificate for Common Units (contained in Exhibit 3.2).
4.2	Specimen Unit Certificate for Subordinated Units (filed as Exhibit 4.2 to Amendment No. 4 to the Partnership s Registration Statement on Form S-1 (Reg. No. 333-91706), filed October 25, 2002, and incorporated herein by reference).
10.1	Amended and Restated Credit Agreement, dated October 29, 2004, among the Partnership, the Operating Partnership, Royal Bank of Canada and the other Lenders set forth therein (filed as



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Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed November 11, 2004, and incorporated herein by reference).

- 10.2 First Amendment to Credit Agreement, dated May 3, 2005, among the Partnership, the Operating Partnership, Royal Bank of Canada and the other Lenders set forth therein (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed May 4, 2005, and incorporated herein by reference).
- 10.3 Second Amendment to Second Amended and Restated Credit Agreement, dated as of December 28, 2007, among the Operating Partnership, the Partnership, the Operating General Partner, Prism Gas Systems I, L.P., Prism Gas Systems GP, L.L.C., Prism Gulf Coast Systems, L.L.C., McLeod Gas Gathering and Processing Company, L.L.C., Woodlawn Pipeline Co., Inc., the financial institution parties to the Credit Agreement and Royal Bank of Canada, as administrative agent and collateral agent.
- 10.4 Second Amended and Restated Credit Agreement, dated November 10, 2005, among the Partnership, the Operating Partnership, Royal Bank of Canada and the other Lenders set forth therein (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed November 14, 2005, and incorporated herein by reference).
- 10.5 Omnibus Agreement dated November 1, 2002, by and among Martin Resource Management, the General Partner, the Partnership and the Operating Partnership (filed as Exhibit 10.3 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
- 10.6 Motor Carrier Agreement dated November 1, 2002, by and between the Operating Partnership and Transport (filed as Exhibit 10.4 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).

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<b>Exhibit Number</b>	<b>Exhibit Name</b>
10.7	Terminal Services Agreement dated November 1, 2002, by and between the Operating Partnership and Martin gas Sales LLC ( MGSLLC ) (filed as Exhibit 10.5 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.8	Throughput Agreement dated November 1, 2002, by and between MGSLLC and the Operating Partnership (filed as Exhibit 10.6 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.9	Contract for Marine Transportation dated November 1, 2002, by and between the Operating Partnership and Martin Resource Management (filed as Exhibit 10.7 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.10	Product Storage Agreement dated November 1, 2002, by and between Martin Underground Storage, Inc. and the Operating Partnership (filed as Exhibit 10.8 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.11	Marine Fuel Agreement dated November 1, 2002, by and between Martin Fuel Service LLC and the Operating Partnership (filed as Exhibit 10.9 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.12	Product Supply Agreement dated November 1, 2002, by and between MGSLLC and the Operating Partnership (filed as Exhibit 10.10 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.13	Martin Midstream Partners L.P. Long-Term Incentive Plan (filed as Exhibit 10.11 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.14	Martin Midstream Partners L.P. Amended and Restated Long-Term Incentive Plan (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed January 26, 2006, and incorporated herein by reference).
10.15	Form of Restricted Common Unit Award Notice (filed as Exhibit 10.2 to the Partnership's Current Report on Form 8-K, filed January 26, 2006, and incorporated herein by reference).
10.16	Assignment and Assumption of Lease and Sublease dated November 1, 2002, by and between the Operating Partnership and MGSLLC (filed as Exhibit 10.12 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.17	Purchaser Use Easement, Ingress-Egress Easement, and Utility Facilities Easement dated November 1, 2002, by and between MGSLLC and the Operating Partnership (filed as Exhibit 10.13 to the Partnership's Current Report on Form 8-K, filed November 19, 2002, and incorporated herein by reference).
10.18	Marine Transportation Agreement, by and between the Operating Partnership and Cross Oil Refining & Marketing, Inc., dated October 27, 2003 (filed as Exhibit 10.14 to the Partnership's Quarterly Report

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of Form 10-Q, filed November 10, 2003, and incorporated herein by reference).

- 10.19 Terminalling Agreement, by and between the Operating Partnership and Cross Oil Refining & Marketing, Inc., dated October 27, 2003 (filed as Exhibit 10.15 to the Partnership's Quarterly Report of Form 10-Q, filed November 10, 2003, and incorporated herein by reference).
- 10.20 Asset Purchase Agreement by and among the Partnership, the Operating Partnership and Tesoro Marine Services, L.L.C., dated October 27, 2003 (filed as Exhibit 10.1 to the Partnership's Amendment No. 1 to Current Report on Form 8-K, filed January 23, 2004, and incorporated herein by reference).
- 10.21 Purchase Agreement by and among the Operating Partnership, Prism Gas Systems I, L.P., Natural Gas Partners V, L.P., Robert E. Dunn, William J. Diehnelt, Gene A. Adams, Philip D. Gettig, Sharon C. Taylor and Scott A. Southard, dated September 6, 2005 (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed September 6, 2005, and incorporated herein by reference).
- 10.22 Amended and Restated Terminal Services Agreement by and between the Operating Partnership and MFSLLC, dated October 27, 2004 (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed October 28, 2004, and incorporated herein by reference).
- 10.23 Transportation Services Agreement by and between the Operating Partnership and MFSLLC, dated December 23, 2003 (filed as Exhibit 10.3 to the Partnership's Amendment No. 1 to Current Report on Form 8-K, filed January 23, 2004, and incorporated herein by reference).
- 10.24 Lubricants and Drilling Fluids Terminal Services Agreement by and between the Operating Partnership and MFSLLC, dated December 23, 2003 (filed as Exhibit 10.4 to the Partnership's Amendment No. 1 to Current Report on Form 8-K, filed January 23, 2004, and incorporated herein by reference).

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<b>Exhibit Number</b>	<b>Exhibit Name</b>
10.25	Martin Resource Management Corporation Purchase Plan for Units of Martin Midstream Partners L.P. (filed as Exhibit 10.1 to the Partnership's registration statement on Form S-8 (Reg. No. 333-140152), filed January 23, 2007, and incorporated herein by reference).
10.26	Stock Purchase Agreement, dated April 27, 2007, by and among Woodlawn Pipeline Co., Inc., Lantern Resources, L.P., David P. Deison and Prism Gas Systems I, L.P. (filed as Exhibit 10.1 to the Partnership's Current Report on Form 8-K, filed May 2, 2007, and incorporated herein by reference).
10.27	Asset Purchase Agreement, dated April 27, 2007, by and among Peak Gas Gathering L.P. and Prism Gas Systems I, L.P. (filed as Exhibit 10.2 to the Partnership's Current Report on Form 8-K, filed May 2, 2007, and incorporated herein by reference).
21.1	List of Subsidiaries (filed as Exhibit 21.1 to the Partnership's Annual Report on Form 10-K, filed March 6, 2008, and incorporated herein by reference).
23.1	Consent of KPMG LLP (filed as Exhibit 23.1 to the Partnership's Annual Report on Form 10-K, filed March 6, 2008, and incorporated herein by reference).
23.2*	Consent of KPMG LLP.
23.3	Consent of KPMG LLP (filed as Exhibit 23.3 to the Partnership's Annual Report on Form 10-K, filed March 6, 2008, and incorporated herein by reference).
31.1*	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 9.06 of the Sarbanes-Oxley Act of 2002. Pursuant to SEC Release 34-47551, this Exhibit is furnished to the SEC and shall not be deemed to be filed.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 9.06 of the Sarbanes-Oxley Act of 2002. Pursuant to SEC Release 34-47551, this Exhibit is furnished to the SEC and shall not be deemed to be filed.
99.1	Balance Sheets as of December 31, 2007 and 2006 (audited) of Martin Midstream GP LLC (filed as Exhibit 99.1 to the Partnership's Annual Report on Form 10-K, filed March 6, 2008, and incorporated herein by reference).

\* Filed or  
furnished  
herewith.

As required by  
Item 15(a)(3) of

Form 10-K, this  
exhibit is  
identified as a  
compensatory  
plan or  
arrangement.

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***Waskom Gas***

***Processing Company***

*Financial Statements as of and for the Years Ended*

*December 31, 2007 and 2006, (with Independent*

*Auditors Report Thereon)*

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**INDEPENDENT AUDITORS REPORT**

To the Partners of  
Waskom Gas Processing Company:

We have audited the accompanying balance sheets of Waskom Gas Processing Company (the Partnership ) as of December 31, 2007 and 2006 and the related statements of income, partners' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

March 5, 2008

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**WASKOM GAS PROCESSING COMPANY  
BALANCE SHEETS  
AS OF DECEMBER 31, 2007 and 2006**

<b>Assets</b>	<b>2007</b>	<b>2006</b>
<b>Current Assets:</b>		
Cash	\$ 265,786	\$ 324,979
Accounts receivable	613,648	326,753
Accounts receivable - partners	9,775,681	11,227,687
Inventories	433,273	436,419
Total current assets	11,088,388	12,315,838
<b>Property and Equipment:</b>		
Gas plant asset and gas gathering equipment	67,931,309	51,331,046
Other fixed assets	584,747	564,736
Accumulated depreciation and amortization	(12,832,563)	(10,952,030)
Property and equipment, net	55,683,493	40,943,752
	\$ 66,771,881	\$ 53,259,590
<b>Liabilities and Partners Capital</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 6,939,543	\$ 5,916,140
Accounts payable - partners	2,485,286	1,706,545
Total current liabilities	9,424,829	7,622,685
Long-Term Liabilities-Asset retirement obligation	197,740	186,989
Partners capital	57,149,312	45,449,916
Commitments and contingencies	\$ 66,771,881	\$ 53,259,590

See accompanying notes to financial statements.



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**WASKOM GAS PROCESSING COMPANY  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
Operating Revenues:		
Natural gas processing and other revenues	\$ 25,462,143	\$ 19,715,849
Natural gas liquid sales	56,494,167	45,884,172
Gain/(loss) on sale of assets	(159,724)	500
Total operating revenues	81,796,586	65,600,521
Operating Costs and Expenses:		
Cost of sales - natural gas liquids	53,014,173	42,505,653
Operating costs	4,595,878	4,355,646
Depreciation and amortization	1,925,840	1,493,499
Total operating costs and expenses	59,535,891	48,354,798
Operating income before taxes	22,260,695	17,245,723
Income tax expense	241,864	
Net income	\$ 22,018,831	\$ 17,245,723

See accompanying notes to financial statements.

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**WASKOM GAS PROCESSING COMPANY  
STATEMENTS OF PARTNERS' CAPITAL  
FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006**

	<b>Total Partners Capital</b>
Balance - December 31, 2005	\$ 22,649,870
Cash contributions for capital expenditures	19,980,733
Cash contributions for working capital	2,494,939
Cash distributions	(300,000)
Distributions in-kind	(16,621,349)
Net income	17,245,723
Balance - December 31, 2006	45,449,916
Cash contributions for capital expenditures	17,733,619
Cash distributions in excess of working capital	(4,128,057)
Cash distributions	(5,250,000)
Distributions in-kind	(18,674,997)
Net income	22,018,831
Balance - December 31, 2007	\$ 57,149,312

See accompanying notes to financial statements.

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**WASKOM GAS PROCESSING COMPANY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net income	\$ 22,018,831	\$ 17,245,723
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,925,840	1,493,499
Distributions in-kind to partners	(18,674,997)	(16,621,349)
Loss/(Gain) on sale of assets	159,724	(500)
Changes in operating assets and liabilities:		
Accounts receivable	(286,895)	(391,548)
Accounts receivable - partners	1,452,006	(5,560,870)
Inventory	3,146	(412,779)
Accounts payable and accrued liabilities	1,023,403	805,279
Accounts payable - partners	778,741	1,275,364
Net cash provided by (used in) operating activities	8,399,799	(2,167,181)
Cash flows from investing activities:		
Additions to gas plant and gathering system assets	(16,809,743)	(20,834,411)
Additions to other fixed assets	(20,011)	
Proceeds from sale of assets	15,200	500
Net cash used in investing activities	(16,814,554)	(20,833,911)
Cash flows from financing activities:		
Contributions from partners	17,733,619	22,475,672
Distributions to partners	(9,378,057)	(300,000)
Net cash provided by financing activities	8,355,562	22,175,672
Net decrease in cash	(59,193)	(825,420)
Cash at beginning of period	324,979	1,150,399
Cash at end of period	\$ 265,786	\$ 324,979

Supplement Cash Flow Disclosures:

Interest Paid	\$	\$
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Taxes Paid	\$	\$
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See accompanying notes to financial statements.

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**Waskom Gas Processing Company**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**1. NATURE OF BUSINESS**

Waskom Gas Processing Company (the Partnership), a Texas General Partnership, was formed on November 1, 1995 to construct and operate the Waskom Processing Plant (the Plant). As of December 31, 2007 the partners are CenterPoint Energy Gas Processing Company (50%) and Prism Gas Systems I, L.P. (50%). Prism Gas Systems I, L.P. serves as operator. The Partnership is engaged in the processing and marketing of natural gas and natural gas liquids (NGLs), predominantly in Texas and northwest Louisiana.

The Plant is a 250 MMcfd cryogenic turboexpander gas plant located in Harrison County, Texas. The Plant has full NGL fractionation, treating and stabilization capabilities. Fractionation is a process used to separate the mixture of NGLs into individual products for sale. Expansions to the processing plant were completed in March and June of 2007 increasing the capacity from 150 MMcfd to 250 MMcfd. In January 2007 the Waskom fractionator was expanded to a capacity of 12,500 barrels per day from 9,500 barrels per day. In addition, an increase in the processing capacity of the plant to 265 MMcfd is expected to be completed by the end of the second quarter 2008.

The natural gas supply for the Plant is derived primarily from natural gas wells located in the Cotton Valley formation of East Texas and Northwest Louisiana.

The primary suppliers of natural gas to the Plant include BP American Production Company, Centerpoint Energy Gas Transmission Company and Devon Energy Corporation, which collectively represent approximately 72% of the 229 MMcfd of natural gas supplied for the year ended December 31, 2007 and 61% of the 183 MMcfd of natural gas supplied for the year ended December 31, 2006.

The Partnership's processing contracts are predominately percent-of-liquids (POL) contracts, in which the Partnership retains a portion of the NGLs recovered as a processing fee. The Partnership also operates under percent-of-proceeds (POP) contracts in which it retains a portion of both the residue gas and the NGLs as payment for services. There is currently one contract for processing on a keep-whole basis. The Partnership is not contractually required to process these keep-whole volumes and, therefore, only processes natural gas related to these contracts under profitable conditions.

Sales of third party gas and fractionated NGLs are predominately to the partners and occur at the tailgate of the Plant.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounts Receivable** Accounts receivable include trade receivables, recorded at invoiced amounts.

**Property and Equipment** Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the classes of assets, as follows:

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**Waskom Gas Processing Company**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>Years</b>
Gas gathering equipment	10
Gas plant	20
Furniture and fixtures	1
Computer equipment	3
Computer software	3

Depreciation expense was \$1,915,089 in 2007 and \$1,483,332 in 2006.

Repairs and maintenance are charged to operations as incurred. Renewals and betterments are capitalized.

**Inventories** Substantially all inventory at December 31, 2007 and 2006 represents pipe used for future projects. Such pipe was valued at acquisition cost.

**Asset Retirement Obligations** Under SFAS No. 143, Accounting for Asset Retirement Obligations ( Statement No. 143) which provides accounting requirements for costs associated with legal obligations to retire tangible, long-lived assets, the Partnership records as an offset to the Asset Retirement Obligation ( ARO ), an asset at fair value in the period in which it is incurred by increasing the carrying amount of the related long-lived asset. In each subsequent period, the liability is accreted over time towards the ultimate obligation amount and the capitalized costs are depreciated over the useful life of the related asset. The Partnership asset retirement obligations include purging, plugging and remediation costs. Accretion expense for 2007 and 2006 was \$10,751 and \$10,167, respectively. Financial Accounting Standards Board issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations ( FIN 47 ), an interpretation of SFAS 143 clarifies that the recognition and measurement provisions of SFAS 143 apply to asset retirement obligations in which the timing or method of settlement may be conditional on a future event that may or may not be within the control of the entity.

No conditional asset retirement obligations associated with the Partnership's long-lived assets have been identified.

**Impairment of Long-Lived Assets** In accordance with SFAS No. 144, long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**Revenue Recognition** Revenues are recognized when title passes or service is performed. The Partnership's business consists largely of the ownership and operation of physical assets. End sales from these businesses result in physical deliveries of commodities.

**Federal Income Taxes** The Partnership is a Texas General Partnership and as such has no liability for Federal Income Taxes. Each partner is responsible for its share of federal income tax.

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**Waskom Gas Processing Company  
NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

On May 18, 2006, the Texas Governor signed into law a Texas margin tax (H.B. No. 3) which restructures the state business tax by replacing the taxable capital and earned surplus components of the current franchise tax with a new taxable margin component. Since the tax base on the Texas margin tax is derived from an income-based measure, the margin tax is construed as an income tax and, therefore, the provisions of SFAS 109 regarding the recognition of deferred taxes apply to the new margin tax. In accordance with SFAS 109, the effect on deferred tax assets of a change in tax law should be included in tax expense attributable to continuing operations in the period that includes the enactment date. Therefore, the Partnership has calculated its deferred tax assets and liabilities for Texas based on the new margin tax. The cumulative effect of the change was immaterial. The impact of the change in deferred tax assets does not have a material impact on tax expense. Texas margin tax expense for 2007 was \$241,864. There was no income tax expense recorded for the year ended December 31, 2006.

***Environmental Liabilities*** The Partnership's policy is to accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses for environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

***Use of Estimates*** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts at the date of the financial statements and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Recently Issued Accounting Pronouncements*** In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on December 14, 2007, the FASB issued proposed FSP FAS 157-b which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for fiscal 2008, we will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-b. The partial adoption of SFAS 157 will not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48)

Accounting for Uncertainty in Income Taxes . FIN 48 is an interpretation of FASB Statement No.109 Accounting for Income Taxes . FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions taken or expected to be taken. The Partnership adopted FIN 48 effective January 1, 2007. There was no impact to the Partnership's financial statements as a result of adopting FIN 48.

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**3. RELATED-PARTY TRANSACTIONS**

During 2007 and 2006, the Partnership engaged in certain material transactions with the partners. The Partnership believes that the terms of these transactions were comparable to those that could have been negotiated with unrelated third parties. As of December 31, 2007 and 2006, the Partnership had receivables of approximately \$9.8 million and \$11.2 million, respectively, and payables of approximately \$2.5 million and \$1.7 million, respectively, due from and due to the partners.

Per the Partnership agreement, cash contributions are made by the partners for capital expenditures and working capital. Contributions for capital expenditures totaled \$17,733,619 and \$19,980,733 for 2007 and 2006, respectively. Cash contributions for working capital totaled \$2,494,939 in 2006. The partnership agreement allows for cash distributions to be made to the partners of any cash available in excess of working capital requirements, generally equal to two months of historical operating expenses.

Such cash distributions totaled \$4,128,057 in 2007. Other cash distributions totaled \$5,250,000 and \$300,000 for 2007 and 2006, respectively.

The Partnership purchases gas from third party producers and processes this gas based on processing contracts, which are primarily percent-of-liquids (POL) contracts. The percentage of liquids retained by the Partnership is distributed to the partners as distributions of products-in-kind based on the partners' equity interest. Distributions of products in-kind of \$18,674,997 and \$16,621,349 in 2007 and 2006, respectively, were made to the partners. Distributions of products in-kind are valued at prevailing market prices at the time of distribution.

In some instances, the fractionated NGL's (less any retained portions) are returned to the third party producers, but in most cases, the third party producers enter into agreements with the partners to market their product. In such instances, the Partnership will sell the product to the partners. Such sales amounted to \$53,365,845 and \$43,678,571 in 2007 and 2006, respectively, and are included as natural gas liquid sales in the income statement.

**4. COMMITMENTS AND CONTINGENCIES**

The Partnership is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Partnership to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. Management believes that any future costs should not have a material adverse effect on the Partnership's liquidity or financial position.

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