American Midstream Partners, LP
Form 10-Q
May 15, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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 incorporation or organization)	(I.R.S. Employer Identification No.)

2103 CityWest Boulevard Building #4, Suite 800 Houston, TX 77042	(346) 241-3400
	(Registrant’s telephone number, including area code)
(Address of principal executive offices)	

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. ý 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). ý 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 ý
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 ý No

There were 52,858,782 common units, 11,009,729 Series A Units, and 9,241,642 Series C Units of American Midstream Partners, LP outstanding as of April 30, 2018. Our common units trade on the New York Stock Exchange under the ticker symbol “AMID.”

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:

Term	Meaning
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.
FERC	Federal Energy Regulatory Commission.
Fractionation	Process by which natural gas liquids are separated into individual components.
GAAP	Accounting principles generally accepted in the United States of America.
Gal	Gallons.
Mgal/d	Thousand gallons per day.
MBbl	Thousand barrels.
MMBbl	Million barrels.
MMBbl/d	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, becomes 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.

2

TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		4
Item 1.	Financial Statements (Unaudited)	4
	Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017	4
	Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017	5
	Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2018 and 2017	6
	Condensed Consolidated Statements of Changes in Partners’ Capital and Noncontrolling Interests for three months ended March 31, 2018 and 2017	7
	Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017	8
	Notes to Condensed Consolidated Financial Statements	10
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	43
	Forward-Looking Statements	43
	Overview	44
	Recent Developments	44
	Our Operations	45
	How We Evaluate Our Operations	46
	General Trends and Outlook	49
	Results of Operations	50
	Liquidity and Capital Resources	57
	Critical Accounting Estimates	61
	Recent Accounting Pronouncements	61
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	61
Item 4.	Controls and Procedures	61
PART II. OTHER INFORMATION		61
Item 1.	Legal Proceedings	61
Item 1A.	Risk Factors	61
Item 6.	Exhibits	62

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited, in thousands, except unit amounts)

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$8,191	$8,782
Restricted cash	18,269	20,352
Accounts receivable, net of allowance for doubtful accounts of $312 and $225 as of March 31, 2018 and December 31, 2017, respectively	87,418	98,132
Inventory	4,795	2,966
Other current assets (Note 6)	25,265	23,420
Assets held for sale (Note 4)	129,247	—
Total current assets	273,185	153,652
Property, plant and equipment, net	1,080,897	1,095,585
Goodwill	67,985	128,866
Restricted cash-long term	5,048	5,045
Intangible assets, net	141,627	174,010
Investments in unconsolidated affiliates	339,271	348,434
Other assets, net	25,249	17,874
Total assets	$1,933,262	$1,923,466
Liabilities, Equity and Partners' Capital		
Current liabilities		
Accounts payable	$52,685	$41,102
Accrued gas and crude oil purchases	14,925	19,986
Accrued expenses and other current liabilities	88,123	68,854
Current portion of long-term debt	5,058	7,551
Liabilities held for sale (Note 4)	3,337	—
Total current liabilities	164,128	137,493
Asset retirement obligations	66,894	66,194
Other long-term liabilities	15,542	2,080
3.77% Senior secured notes (Non-recourse)	54,682	55,198
8.50% Senior unsecured notes	418,078	418,421
Revolving credit facility	712,600	697,900
3.97% Trans-Union Secured Senior notes	29,486	29,937
Deferred tax liability	8,274	8,123
Total liabilities	1,469,684	1,415,346
Commitments and contingencies (Note 18)		
Convertible preferred units	317,180	317,180
Equity and partners' capital		
General Partner interests (960 thousand and 965 thousand units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	(88,746)	(96,552)
Limited Partner interests (52,853 thousand and 52,711 thousand units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	221,346	273,703
Accumulated other comprehensive income	12	28

Total partners' capital	132,612	177,179
Noncontrolling interests	13,786	13,761
Total equity and partners' capital	146,398	190,940
Total liabilities, equity and partners' capital	$1,933,262	$1,923,466

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

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

	Three months ended March 31,	
	2018	2017
Revenue:		
Commodity sales	$158,863	$123,521
Services	46,906	40,192
Gain on commodity derivatives, net	60	365
Total revenue	205,829	164,078
Operating expenses:		
Costs of sales	150,166	115,468
Direct operating expenses	23,446	17,405
Corporate expenses	22,692	30,113
Depreciation, amortization and accretion	21,997	25,570
Gain on sale of assets, net	(95)	(21)
Total operating expenses	218,206	188,535
Operating loss	(12,377)	(24,457)
Other income (expense), net		
Interest expense, net of capitalized interest	(13,876)	(17,956)
Other income (expense), net	22	(37)
Earnings in unconsolidated affiliates	12,673	15,402
Loss from continuing operations before income taxes	(13,558)	(27,048)
Income tax expense	(280)	(1,123)
Loss from continuing operations	(13,838)	(28,171)
Loss from discontinued operations	—	(710)
Net loss	(13,838)	(28,881)
Less: Net income attributable to noncontrolling interests	45	1,303
Net loss attributable to the Partnership	$(13,883)	$(30,184)
General Partner’s interest in net loss	$(181)	$(420)
Limited Partners’ interest in net loss	$(13,702)	$(29,764)
Distribution declared per common unit	$0.4125	$0.4125
Limited Partners’ net loss per common unit:		
Basic and diluted:		
Loss from continuing operations	$(0.42)	$(0.74)
Loss from discontinued operations	—	(0.01)
Net loss per common unit	$(0.42)	$(0.75)
Weighted average number of common units outstanding:		
Basic and diluted	52,769	51,451

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

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

	Three months ended March 31,	
	2018	2017
Net loss	$(13,838)	$(28,881)
Unrealized gain (loss) related to postretirement benefit plan	(16)	18
Comprehensive loss	(13,854)	(28,863)
Less: Comprehensive income attributable to noncontrolling interests	45	1,303
Comprehensive loss attributable to the Partnership	$(13,899)	$(30,166)

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

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	Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Non controlling Interests	Total Equity and Partners' Capital
Balances at December 31, 2016	$(47,645)	$616,087	$ (40)	$568,402	$16,755	$585,157
Net income (loss)	(420)	(29,764)	—	(30,184)	1,303	(28,881)
Issuance of common units, net of offering costs	—	(72)	—	(72)	—	(72)
Contributions	123	4,000	—	4,123	—	4,123
Distributions	(282)	(33,685)	—	(33,967)	—	(33,967)
Distribution to noncontrolling interests ("NCI") owners	—	—	—	—	(868)	(868)
Contributions from NCI owners	—	—	—	—	280	280
LTIP vesting	(2,135)	2,135	—	—	—	—
Tax netting repurchase	—	(971)	—	(971)	—	(971)
Equity compensation expense	3,304	733	—	4,037	—	4,037
Other comprehensive income	—	—	18	18	—	18
Balances at March 31, 2017	$(47,055)	$558,463	$ (22)	$511,386	$17,470	$528,856
Balances at December 31, 2017	$(96,552)	$273,703	$ 28	$177,179	$13,761	$190,940
Cumulative effect of accounting change (Note 3)	(139)	(10,552)	—	(10,691)	—	(10,691)
Net loss	(181)	(13,702)	—	(13,883)	45	(13,838)
Contributions	9,870	—	—	9,870	—	9,870
Distributions	(392)	(29,728)	—	(30,120)	—	(30,120)
Distributions to NCI owners	—	—	—	—	(20)	(20)
Distribution for acquisition of Trans-Union	(38)	—	—	(38)	—	(38)
LTIP vesting	(2,328)	2,328	—	—	—	—
Tax netting repurchase	—	(703)	—	(703)	—	(703)
Equity compensation expense	1,014	—	—	1,014	—	1,014
Other comprehensive income	—	—	(16)	(16)	—	(16)
Balances at March 31, 2018	$(88,746)	$221,346	$ 12	$132,612	$13,786	$146,398

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

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

	Three months ended March 31,	
	2018	2017
Cash flows from operating activities		
Net loss	$(13,838)	$(28,881)
Adjustments to reconcile net loss to net cash provided by operating activities including discontinued operations:		
Depreciation, amortization and accretion	21,997	29,351
Amortization of deferred financing costs	1,316	1,253
Amortization of weather derivative premium	278	257
Unrealized (gain) loss on derivatives contracts, net	(5,112)	1,273
Non-cash compensation expense	1,014	4,037
Gain on sale of assets, net	(95)	(228)
Corporate overhead support	—	4,000
Other non-cash items	(15)	1,965
Earnings in unconsolidated affiliates	(12,673)	(15,402)
Distributions from unconsolidated affiliates	12,673	15,402
Deferred tax expense	151	678
Bad debt expense	87	830
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	7,251	266
Inventory	(3,399)	(2,626)
Other current assets	(4,174)	3,114
Other assets, net	—	168
Accounts payable	11,200	(9,716)
Accrued gas and crude oil purchases	(4,431)	2,403
Accrued expenses and other current liabilities	2,623	994
Asset retirement obligations	(6)	(41)
Other liabilities	—	(250)
Net cash provided by operating activities	14,847	8,847
Cash flows from investing activities		
Contributions to unconsolidated affiliates	(987)	—
Additions to property, plant and equipment and other	(25,946)	(20,221)
Proceeds from disposals of property, plant and equipment	8	51
Insurance proceeds from involuntary conversion of property, plant and equipment	—	150
Distributions from unconsolidated affiliates, return of capital	11,181	7,092
Net cash used in investing activities	(15,744)	(12,928)
Cash flows from financing activities		
Proceeds from issuance of common units to public, net of offering costs	—	(72)
Contributions	9,870	123
Distributions	(22,035)	(32,198)
Contribution from noncontrolling interest owners	—	280
Distributions to noncontrolling interests owners	(20)	(868)
LTIP tax netting unit repurchase	(703)	(971)

Payment of deferred financing costs	(1,085)	(1,402)
Payment of 3.77% Senior Notes	(507)	—
Payment of 3.97% Senior Notes	(439)	—
Payments of other debt	(1,893)	(2,363)
Payments of credit agreement	(119,700)	(325,908)
Borrowings on credit agreement	134,400	82,500

	Three months ended March 31,	
	2018	2017
Other	338	(20)
Net cash used in financing activities	(1,774)	(280,899)
Net decrease in cash, cash equivalents, and restricted cash	(2,671)	(284,980)
Cash, cash equivalents, and restricted cash, beginning of period	34,179	329,230
Cash, cash equivalents, and restricted cash, end of period	$31,508	$44,250
Cash and cash equivalents, beginning of period	8,782	5,666
Restricted cash, beginning of period	25,397	323,564
Cash, Cash equivalents and Restricted cash, beginning of period	34,179	329,230
Cash and cash equivalents, end of period	8,191	16,919
Restricted cash, end of period	23,317	27,331
Cash, Cash equivalents and Restricted cash, end of period	31,508	44,250
Net decrease in Cash, Cash equivalents and Restricted cash	$(2,671)	$(284,980)

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

(1) Organization and Basis of Presentation

Organization

American Midstream Partners, LP (together with its consolidated subsidiaries, the “Partnership”, “we”, “us”, or “our”) is a growth-oriented Delaware limited partnership that was formed in August 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% directly owned by High Point Infrastructure Partners, LLC (“HPIP”) and 23% indirectly owned by Magnolia Infrastructure Holdings, LLC (“Magnolia”), 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.

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 five reportable segments, (1) gas gathering and processing services, (2) liquid pipelines and services, (3) natural gas transportation services, (4) offshore pipelines and services, and (5) terminalling 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 and storing specialty chemical products and refined products. Most of our cash flow is generated from fee-based and fixed-margin compensation 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 transmission 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.

Basis of presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with GAAP for interim consolidated financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and notes required by GAAP for annual consolidated financial statements and should therefore be read in conjunction with our annual consolidated financial statements and notes presented in our Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to fairly state our financial position, results of operations and cash flows for the interim periods reported.

These condensed consolidated financial statements follow the same significant accounting policies as those included in our annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards. See Notes 2 and 3 for additional information on the adoption of new standards. Certain prior period amounts have been reclassified to conform to the current presentation.

The accompanying condensed consolidated financial statements include accounts of the Partnership and its consolidated subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the accompanying condensed consolidated financial statements.

We may enter into transactions with ArcLight or its affiliates whereby we receive midstream assets or other businesses in exchange for cash or Partnership's equity. As the transactions are between entities under common control we account for the net assets acquired at the affiliate's historical cost basis, whether the transactions are considered assets or business acquisitions. In certain cases, our historical financial statements will be revised to include the results attributable to the assets acquired from the later of April 15, 2013 (the date ArcLight affiliates obtained control of our General Partner) or the date the ArcLight affiliates obtained control of the assets or business acquired.

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

(2) New Accounting Pronouncements

Adopted in 2018

The Partnership adopted Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" issued by the Financial Accounting Standards Board (FASB) on January 1, 2018. See Note 3 - Revenue Recognition for more information on the impact of its adoption.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 provides specific guidance on eight cash flow classification issues, including debt prepayment or debt extinguishment costs, to reduce diversity in practice. ASU 2016-15 is effective for interim and annual periods beginning after December 15, 2017. There was no impact of the retrospective adoption of this ASU on the Partnership's condensed consolidated statement of cash flows.

In November 2016, the FASB issued ASU No. 2016-18 ("ASU 2016-18"), "Statement of Cash Flows (Topic 230): Restricted Cash", which requires amounts described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. A reconciliation between the balance sheet and the statement of cash flows must be disclosed when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash and restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017.

We adopted both ASU 2016-15 and ASU 2016-18 on its effective date of January 1, 2018 using the retrospective transition method. Upon adoption of the standards, the Partnership's condensed consolidated statement of cash flows for the period ended March 31, 2017 was impacted as follows (in thousands):

	Three months ended March 31, 2017		
Condensed Consolidated Statement of Cash Flows	As Previously Reported	Effect of Adoption	As Adjusted
Cash flows from operating activities			
Net loss	$(28,881)	$—	$(28,881)
Adjustments to reconcile net loss to net cash provided by operating activities including discontinued operations (excluding 'Other non-cash items')	39,416	—	39,416
Restricted cash, short-term	(3,135)	3,135 (1)	—
Changes in operating assets and liabilities, net of effects of assets acquired and liabilities assumed (excluding 'Restricted cash')	(1,633)	(55) (1)	(1,688)
Net cash provided by (used in) operating activities	5,767	3,080	8,847
Cash flows from investing activities			
Restricted cash	299,313	(299,313) (1)	—
Other investing activities (excluding 'Restricted cash')	(12,928)		(12,928)
Net cash provided by (used in) investing activities	286,385	(299,313)	(12,928)
Cash flows from financing activities			
Other financing activities	(280,899)	—	(280,899)

Net cash used in financing activities	(280,899)	—	(280,899)
Net increase (decrease) in cash, cash equivalents, and restricted cash	11,253	(296,233)	(284,980)
Cash, cash equivalents and Restricted Cash			
Beginning of period	5,666	323,564	329,230
End of period	$16,919	$27,331	$44,250

(1) ASU 2016-18 adjustment to move restricted cash to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the condensed consolidated statement of cash flows.

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

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 was issued with the intent to clarify the scope of modification accounting and when it should be applied to a change to the terms or conditions of a share-based payment award. Under the new guidance, modification accounting is required for all changes to share based payment awards, unless all the following conditions are met: (i) there is no change to the fair value of the award, (ii) the vesting conditions have not changed, and iii) the classification of the award as an equity instrument or a debt instrument has not changed. The accounting update was adopted on its effective date January 1, 2018, on a prospective basis. Based on historical patterns of our unit-based awards, which did not involve material modifications, we do not expect the adoption of this accounting update to have a material impact on our consolidated financial position, cash flows or results of operations.

In March 2018, the FASB issued ASU No. 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)”, to provide guidance for companies that have not completed their accounting for the income tax effects of the Tax Cuts and Jobs Act (the “Act”) in the period of enactment. The measurement period begins in the reporting period that includes the Act’s enactment date of December 22, 2017, and ends when a company has obtained, prepared and analyzed the information needed to complete the accounting requirements under ASU No. 2018-05/Topic 740 and should not extend beyond one year from the enactment date. The impact of adopting the new guidance on our consolidated financial position, cash flows or results of operations, as well as on related disclosures was immaterial.

Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02 (Topic 842) "Leases", which supersedes the lease recognition requirements in Accounting Standards Codification (“ASC”) Topic 840, "Leases". Under ASU No. 2016-02, lessees are required to recognize assets and liabilities on the balance sheet for most leases and to 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 in the process of evaluating the impact of ASU No. 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 are finalizing our selection of a third-party consulting firm to assist us with the adoption of the new guidance and are currently in the Impact Assessment phase. We are not yet able to determine whether the adoption of this standard will have a material impact on our consolidated financial statements and related disclosures, including additional changes, if any, to our accounting system to capture data for disclosure purposes. We will adopt the guidance on its effective date January 1, 2019.
In January 2018, the FASB issued ASU No. 2018-01, “Leases - Land Easement Practical Expedient for Transition to Topic 842” to provide an optional transition practical expedient to forego evaluation under Topic 842 of existing or expired land easements that were not previously accounted for as leases under the current guidance found in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. As discussed above, we are finalizing our selection of a third-party consulting firm to assist us with the adoption of the new guidance and are currently in the Impact

Assessment phase. We are not yet able to determine whether we would elect this practical expedient or whether the adoption of this standard will have a material impact on our consolidated financial position, results of operations and cash flows, as well as related disclosures, including additional changes, if any, to our accounting system to capture data for disclosure purposes. We will adopt this on its effective date January 1, 2019.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". This guidance will become effective for interim and annual periods beginning after December 15, 2019. We expect to adopt this ASU on January 1, 2020, and we are currently evaluating the effect that adopting this guidance will have on our consolidated financial position, results of operations and cash flows.

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

(3) Revenue Recognition

Adoption of Topic 606

ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”, supersedes previous revenue recognition guidance, establishes a principle-based model to be applied to all contracts with customers and introduces enhanced disclosure requirements. It also requires the use of more estimates and judgments than the previous standards. We adopted the new standard and the series of related accounting standard updates that followed (collectively referred to as “Topic 606”) on January 1, 2018, using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018 and any new contracts entered into after January 1, 2018. Under this method, the financial information of previous years has not been adjusted.

While the Partnership does not expect future net earnings to be materially impacted by revenue recognition timing changes, we recognized the cumulative effect of the adoption as a decrease in the opening balance of partners' capital of approximately $10.7 million. The adjustment was primarily related to four contracts where the allocation of the transaction prices resulted in changes to the pattern and timing of revenue recognition for those contracts as compared to the cash received for certain up-front fees for capital recovery as well as contracts with tiered fee structures.

The following tables summarize the impacts of adopting Topic 606 on the Partnership’s condensed consolidated financial statements as of and for the three months ended March 31, 2018, adjusting for the differences between revenue as reported following adoption of Topic 606 and revenue as it would have been reported under previous standards (in thousands):

	Three months ended March 31, 2018		
Condensed Consolidated Statement of Income	As Reported	Adjustments	Amounts without Adoption of Topic 606
Revenue			
Commodity sales	$158,863	$ 5,242	$164,105
Services	46,906	(2,681)	44,225
Operating expenses			
Costs of sales	150,166	3,165	153,331
Direct operating expenses	23,446	(456)	22,990
Operating loss	(12,377)	(148)	(12,525)
Net loss attributable to the Partnership	$(13,883)	$ (148)	$(14,031)
General Partner’s interest in net loss	$(181)	$ (2)	$(183)
Limited Partners’ interest in net loss	(13,702)	(146)	(13,848)

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

	As of March 31, 2018		
Condensed Consolidated Balance Sheet (in thousands)	As Reported	Adjustments	Amounts without Adoption of Topic 606
Assets			
Accounts receivable, net	$87,418	$ (67,553)	$19,865
Unbilled revenue	—	67,553	67,553
Other current assets	25,265	—	25,265
Other noncurrent assets	25,249	(3,419)	21,830
Liabilities			
Accrued expenses and other current liabilities	88,123	—	88,123
Liabilities held for sale	3,337	(459)	2,878
Other noncurrent liabilities	15,542	(13,503)	2,039
Equity and partners’ capital			
General partner interests	$(88,746)	$ 137	$(88,609)
Limited partner interests	221,346	10,406	231,752

The majority of the adjustments in the table above were associated with our natural gas gathering, processing and transportation revenues and our terminalling and storage revenues. The magnitude of the future effect of implementing Topic 606 is dependent on future customer volumes, subject to the impacted contracts and commodity prices for those volumes. While reported revenues and expenses can be materially reduced, these presentation changes may not materially impact net earnings.

Revenue from Contracts with Customers

Our revenue is derived from the provision of gathering, processing, transportation, terminalling and storage services and the sale of commodities primarily to marketers and brokers, refiners and chemical manufacturers, utilities and power generation customers, industrial users, and local distribution companies. Beginning on January 1, 2018, we account for revenue from contracts with customers in accordance with Topic 606. The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided over a period of time. Topic 606 requires that a contract’s transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

Under Topic 606, we disaggregate our revenues for disclosure purposes by segment and type of activity. These categories depict how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors. Our business activities are conducted through our five reportable segments, shown below. See Note 21 - Reportable Segments for further discussion of our reportable segments. The following table presents our segment revenues from contracts with customers disaggregated by type of activity (in thousands):

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

	Three months ended March 31, 2018					
	Gas Gathering and Processing Services	Liquid Pipelines and Services	Natural Gas Transportation Services	Offshore Pipelines and Services	Terminalling Services	Total
Commodity sales:						
Natural gas	$1,906	$—	$ 6,637	$ 2,437	$ —	$10,980
NGLs	21,150	—	—	38	—	21,188
Condensate	5,648	—	—	34	—	5,682
Crude oil	—	115,782	—	—	—	115,782
Other sales [1]	183	—	4	40	5,004	5,231
Services:						
Gathering and processing	6,250	—	—	866	—	7,116
Transportation	105	3,588	9,412	8,661	—	21,766
Terminalling and storage	—	—	—	—	11,833	11,833
Other services [2]	434	403	10	4,783	561	6,191
Revenues from contracts with customers	$35,676	$119,773	$ 16,063	$ 16,859	$ 17,398	$205,769

[1] Other commodity sales for our Terminalling Services segment include sales of refined product. The Partnership is actively marketing for sale all of its assets in the Terminalling Services segment. See Note 4 - Acquisitions and Dispositions.
[2] Other services in our Offshore Pipelines and Services segment include asset management services.

Commodity Sales

The Partnership sells various commodities as shown in the table above. Generally, for the majority of our commodity sales contracts: (i) each unit of product is a separate performance obligation, since our promise is to sell multiple distinct units of product at a point in time; (ii) the transaction price principally consists of variable consideration, which is determinable on commodity index prices for the volume of the product sold to the customer that month; and (iii) the transaction price is allocated to each performance obligation based on the product's standalone selling price. Revenues from sales of commodities are recognized at the point in time when control of the commodity transfers to the customer, which generally occurs upon delivery of the product to the customer or its designee. Payment is generally received from the customer in the month following delivery. Contracts with customers have varying terms, including spot sales, month-to-month contracts and multi-year agreements.

In our Liquid Pipelines and Services segment, we enter into purchase and sales contracts as well as buy/sell contracts with counterparties, under which contracts we gather and transport different types of crude oil and eventually sell the crude oil to either the same counterparty or different counterparties. For each of these arrangements, the Partnership assesses if control of the underlying commodity volumes transfer to the Partnership. Generally, the Partnership is unable to direct the use of the commodity volumes it purchases from the supplier because the Partnership is contractually required to redeliver an equivalent volume of the commodity back to the supplier or to a specified customer.

Occasionally, we enter into crude oil inventory exchange arrangements with the same counterparty where the purchase and sale of inventory are considered in contemplation of each other. These types of arrangements are accounted for as

inventory exchanges and are recorded on a net basis.

Services

The Partnership provides gathering, processing, transportation, terminalling and storage services pursuant to a variety of contracts. Generally, for the majority of these contracts: (i) our promise is to transfer (or stand ready to transfer) a series of distinct integrated services over a period of time, which is a single performance obligation and (ii) the transaction price includes fixed or variable consideration, or both fixed and variable consideration. The amount of consideration is determinable at contract inception or at each month end based on our right to invoice at month end for the value of services provided to the customer that month.

The transaction price is recognized as revenue over the service period specified in the contract as the services are rendered using a time-based (passage of time) or units-based (units of service transferred) method for measuring provision of the services. Progress towards satisfying our performance obligation is based on the firm or interruptible nature of the promised service and

the terms and conditions of the contract (such as contracts with or without makeup rights). Payment is generally received from the customer in the month of service or the month following the service. Contracts with customers generally are a combination of month-to-month and multi-year agreements.

Firm Services

Firm services are services that are promised to be available to the customer at all times during the term of the contract, with limited exceptions. These agreements require customers to deliver, transport or throughput a minimum volume over an agreed upon period and substantially all of such agreements are entered into with customers to economically support the return on our capital expenditure necessary to construct the related asset. Our firm service contracts are typically structured with take-or-pay or minimum volume provisions, which specify minimum service quantities a customer will pay for even if it chooses not to receive or use them in the specified service period (referred to as "deficiency quantities").

Under firm service contracts, we record a receivable from the customer in the period that services are provided or when the transaction occurs, including amounts for deficiency quantities from customers associated with minimum volume commitments. If a customer has a make-up right associated with a deficiency, we defer the revenue attributable to the counterparty's make-up right and subsequently recognize the revenue at the earlier of when the deficiency volume is delivered or shipped, when the make-up right expires or when it is determined that the customer's ability to utilize the make-up right is remote. At March 31, 2018, customer deficiencies associated with firm services were immaterial.

Interruptible Services

Interruptible services are the opposite of firm services in that such services are provided to the extent that we have available capacity. Generally, we do not have an obligation to perform these services until we accept a customer's periodic request for service. For the majority of these contracts, the customer will pay only for the actual quantities of services it chooses to receive or use, and we typically recognize the transaction price as revenue as those units of service are transferred to the customer in the specified service period.

Gathering and Processing

In our Gas Gathering and Processing Services segment, we purchase gas volumes from producers at the wellhead, production facility, or at receipt points on our systems typically at an index price, and charge the producer fees associated with the downstream gathering and processing services. Services can be firm if subject to a minimum volume commitment or acreage dedication or interruptible when offered on an as requested, non-guaranteed basis. Revenue for fee-based gathering and processing services are valued based on the rate in effect for the month of service and is recognized in the month of service based on the volumes of natural gas we gather, process and fractionate. Under these arrangements, we may take control of: (i) none of the commodities we sell (i.e., residue gas or NGLs), (ii) a portion of the commodities we sell, or (iii) all of the commodities we sell.

In those instances where we purchase and obtain control of the entire natural gas stream in our producer arrangements, we have determined these are contracts with suppliers rather than contracts with customers and therefore, these arrangements are not included in the scope of Topic 606. These supplier arrangements are subject to updated guidance in ASC 705, "Cost of Sales and Services," whereby any embedded fees within such contracts, which historically have been reported as services revenue, are now reported as a reduction to cost of sales upon adoption of Topic 606.

In those instances where we remit all of the cash proceeds received from third parties for selling the extracted commodities to the producer, less the fees attributable to these arrangements, we have determined that the producer has control over these commodities. Upon adoption of Topic 606, we eliminated recording both sales revenue (natural gas and products) and cost of sales amounts and now only record fees attributable to these arrangements as service revenues.

In other instances where we do not obtain control of the extracted commodities we sell, we are acting as an agent for the producer and, upon adoption of Topic 606, we have continued to recognize services revenue for the net amount of consideration we retain in exchange for our service.

The Partnership may charge additional service fees to customers for a portion of the contract term (i.e., for the first year of a contract or until reaching a volume threshold) due to the significant upfront capital investment, and these fees are initially deferred and recognized to revenue over the expected period of customer benefit, generally the lesser of the expected contract term or the life of the related properties.

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

Transportation

Our transportation operations generally consist of fee-based activities associated with transporting crude oil, natural gas, and NGL on pipelines, gathering systems and trucks. Revenues from pipeline tariffs and fees are associated with the transportation at a published tariff, as well as revenues associated with agreements for committed capacity on various assets. We primarily recognize pipeline tariff and fee revenues over time based on the volumes delivered and invoiced. The majority of our pipeline tariff and fee revenues are based on actual volumes and rates.

As is common in the pipeline transportation industry, our tariffs incorporate a loss allowance factor. The intent of the allowance in arrangements for the transportation of natural gas is to approximate the natural shrink that occurs when transporting the gas. For crude oil transportation arrangements, loss allowance provisions are immaterial to the Partnership. In the event the Partnership retains excess natural gas and crude oil and subsequently sells the commodity to a third party, the sale is recorded at that point in time as a commodity sale.

Terminalling and Storage

In our Terminalling Services segment, we generally receive fee-based compensation on guaranteed firm storage contracts, throughput fees charged to our customers when their products are either received or disbursed, and other operational charges associated with ancillary services provided to our customers, such as excess throughput, steam heating and truck weighing at our marine terminals. Storage fees resulting from short-term and long-term contracts are typically recognized in revenue ratably over the term of the contract regardless of the actual storage capacity utilized.

Other Items in Revenue

The following table presents the reconciliation of our revenues from contracts with customers to segment revenues and total revenues as disclosed in our condensed consolidated statement of operations (in thousands):

	Three months ended March 31, 2018					
	Gas Gathering and Processing Services	Liquid Pipelines and Services	Natural Gas Transportation Services	Offshore Pipelines and Services	Terminalling Services	Total
Revenues from contracts with customers	$35,676	$119,773	$ 16,063	$ 16,859	$ 17,398	$205,769
Gains (losses) on commodity derivatives, net	2	58	—	—	—	60
Total revenues of reportable segments	$35,678	$119,831	$ 16,063	$ 16,859	$ 17,398	$205,829

We may utilize derivatives in connection with contracts with customers. We purchase and take title to a portion of the NGLs and crude oil that we sell, which may expose us to changes in the price of these products in our sales markets. We do not take title to the natural gas we transport and therefore have no direct commodity price exposure to natural gas. Derivative revenue is not included as a component of revenue from contracts with customers, but is included in other items in revenue.

Contract Balances

Our contract balances primarily consist of customer receivables and contract assets and liabilities. Trade accounts receivable, net consists of the following as presented on our condensed consolidated balance sheet (in thousands):

	March 31, 2018
Receivables arising from revenue contracts	
Unbilled customer receivables	$67,553
Billed customer receivables	20,177
Allowance for doubtful accounts	(312)
Accounts receivable, net	$87,418

Our contract assets and liabilities primarily relate to contracts where allocations of the transaction prices result in differences to the pattern and timing of revenue recognition as compared to contractual billings. Where payments are received in advance of recognition as revenue, contract liabilities are created. Where we have earned revenue and our right to invoice the customer is conditioned on something other than the passage of time, contract assets are created.

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

The following table presents the change in the contract assets and liability balances during the three months ended March 31, 2018 (in thousands):

	Contract Assets	Contract Liabilities
Balance at December 31, 2017	$ —	$ 2,136
Topic 606 implementation	2,555	13,246
Amounts recognized as revenue	—	(502)
Additions	864	1,205
Total balance at March 31, 2018	3,419	16,085
Classified as held for sale	—	(708)
Balance at March 31, 2018	$ 3,419	$ 15,377
Current	—	998
Noncurrent	3,419	14,379
Balance at March 31, 2018	$ 3,419	$ 15,377

In our condensed consolidated balance sheet as of March 31, 2018, current portions of contract assets are included in other current assets, noncurrent portions of contract assets are included in other (noncurrent) assets, current portions of contract liabilities are included in other current liabilities and noncurrent portions of contract liabilities are included in other long-term liabilities.

Remaining Performance Obligations

The Partnership applies the practical expedients in Topic 606 and does not disclose consideration for remaining performance obligations with an original expected duration of one year or less or for variable consideration related to unsatisfied (or partially unsatisfied) performance obligations. Therefore, the following table as of March 31, 2018, represents only revenue expected to be recognized from contracts where the price and quantity of the product or service are fixed:

	Remainder of 2018	2019	2020	2021	2022	Thereafter	Total
Gathering and processing revenues supported by minimum volume commitments	$ 9,252	$ 12,743	$ 12,743	$ 12,720	$ 12,467	$ 19,155	$ 79,080
Transportation agreements	15,921	19,233	18,475	18,207	18,100	190,416	280,352
Terminalling and storage throughput agreements	10,821	12,823	6,220	2,715	1,593	—	34,172
Other	1,170	1,560	1,560	—	—	—	4,290
Total	$ 37,164	$ 46,359	$ 38,998	$ 33,642	$ 32,160	$ 209,571	$ 397,894

Due to the application of the practical expedients, the table above represents only a portion of the Partnership's expected future consolidated revenues and it is not necessarily indicative of the expected trend in total revenues for the Partnership. Certain contracts do not meet the requirements for presentation in the table above due to the term being one year or less and due to variability in the amount of performance obligation remaining, variability in the timing of recognition or variability in consideration. Acreage dedications do require us to perform future services but do not contain a minimum level of services and are therefore excluded from this presentation. Long-term supply and logistics arrangements contain variable timing, volumes and/or consideration and are excluded from this presentation.

(4) Acquisitions and Dispositions

Acquisitions

As more fully described in our Annual Report for the year ended December 31, 2017, during 2017, the Partnership completed various acquisitions, the results of which are fully reflected in the first quarter of 2018, but are not reflected in the comparable period of 2017 due to the closing dates of the acquisitions. The pro forma effects of these acquisitions were immaterial

to our condensed consolidated statement of operations for the three months ended March 31, 2017 and, therefore, have not been separately disclosed.
Acquisitions accounted for as business combinations included the following:

- On June 2, 2017, we acquired 100% of the Viosca Knoll Gathering System ("VKGS") from Genesis Energy, L.P. for total consideration of approximately $32 million in cash.
- On August 8, 2017, we acquired 100% of the interest in Panther Offshore Gathering Systems, LLC ("POGS"), Panther Pipeline, LLC ("PPL") and Panther Operating Company, LLC ("POC" and, together with POGS and PPL, "Panther") from Panther Asset Management LLC for approximately $60.9 million.
- On November 3, 2017, we completed the acquisition of 100% of the equity interests in Trans-Union Interstate Pipeline, LP ("Trans-Union") from affiliates of ArcLight, for a total consideration of approximately $49.4 million.

Additionally, we acquired the following interests in 2017 that are accounted for as investments in unconsolidated affiliates:

- On August 8, 2017, we entered into a new joint venture agreement with Targa Midstream Services, LLC ("Targa") by which our previously wholly owned subsidiary Cayenne Pipeline, LLC became the Cayenne joint venture between Targa and us.
- On September 29, 2017, we acquired an additional 15.5% equity interest in Class A units of Delta House from affiliates of ArcLight for total cash consideration of approximately $125.4 million.
- On October 27, 2017, American Midstream Emerald, LLC, a wholly-owned subsidiary of the Partnership, entered into a purchase and sale agreement with Emerald Midstream, LLC, an ArcLight affiliate, to purchase an additional 17.0% equity interest in Destin for total consideration of $30.0 million. Prior to 2017, we acquired other interests from Emerald, as detailed in Note 10 - Investments in Unconsolidated Affiliates, collectively referred to as the "Emerald Transactions."

During the three months ended March 31, 2018, there were no acquisitions.

Planned Dispositions

Business Held for Sale

During 2017, the Partnership began actively marketing for sale all of its assets in the Terminalling Services segment as part of its plan to divest certain non-core assets and utilize the proceeds to fund future acquisitions and growth projects. On February 16, 2018, the Partnership entered into a definitive agreement for the sale of our refined products terminals (the "Refined Products Business") to DKGP Energy Terminals LLC, a joint venture between Delek Logistics Partners, LP and Green Plains Partners LP, for approximately $138.5 million in cash, subject to working capital adjustments. Accordingly, we have presented the assets and liabilities of the Refined Products Business as held for sale. The Refined Products Business is a portion of the Terminalling Services segment consisting of two terminal facilities located in Caddo Mills, Texas and North Little Rock, Arkansas. As such, this planned disposition does not meet the criteria for discontinued operations.

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

In view of the planned sale, which remains subject to customary closing conditions, we have classified our assets and liabilities of the Refined Products Business in current assets and liabilities held for sale on our condensed consolidated balance sheet. On May 11, 2018, we received notification that the Federal Trade Commission had requested additional information and documentary materials with respect to the planned sale. We and the counterparties to this planned transaction are reviewing this request and will be working to coordinate an appropriate response.
Included in the disposal group are the following assets and liabilities (in thousands):

	March 31, 2018
Accounts receivable, net	$3,376
Inventory	1,571
Other current assets	893
Property, plant and equipment, net	32,129
Goodwill	61,163
Intangible assets	29,403
Other non-current assets	712
Total assets held for sale	$129,247
Accounts payable	$1,219
Accrued gas purchases	630
Accrued expenses and other current liabilities	881
Contract liabilities, long-term	607
Total liabilities held for sale	$3,337

Net income from continuing operations before income taxes for the Refined Products Business was $2.4 million and $1.8 million for the three months ended March 31, 2018 and 2017, respectively.

Discontinued Operations

On September 1, 2017, the Partnership completed the disposition of its propane business (the “Propane Business”) pursuant to the Membership Interest Purchase Agreement dated July 21, 2017, between AMID Merger LP, a wholly owned subsidiary of the Partnership, and SHV Energy N.V. Through the transaction, we divested Pinnacle Propane’s 40 service locations; Pinnacle Propane Express’ cylinder exchange business and related logistics assets; and the Alliant Gas utility system. Prior to the sale, we moved the trucking business from the Propane Marketing Services segment to the Liquid Pipelines and Services segment. With the disposition of the Propane Business, we eliminated the Propane Marketing Services segment.

In connection with the transaction, the Partnership received approximately $170.0 million in cash, net of customary closing adjustments. We recorded a gain of $47.4 million, net of $2.5 million of transaction costs, which was included in (Gains) losses on sale of assets and business line item on the Partnership's consolidated statement of operations in the period ended September 30, 2017. The Partnership has reported the accounts and the results of our Propane Business as discontinued operations in our condensed consolidated statements of operations for the three months ended March 31, 2017.

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

Summarized financial information related to the Propane Business is set forth in the tables below (in thousands):

	Three months ended March 31, 2017
Total revenue	$35,554
Total operating expenses	36,305
Operating loss	(751)
Other income	41
Income tax expense	—
Loss from discontinued operations before taxes	$(710)
Partnership's loss from discontinued operations, net of tax	$(710)
Depreciation and amortization	$3,781
Capital expenditures	$1,119
Operating non-cash items	
Unrealized gain loss on derivative contracts, net	$901

(5) Inventory

Inventory consists of the following (in thousands):

	March 31, 2018	December 31, 2017
Crude oil	$ 4,378	$ 1,553
NGLs	282	347
Refined products	—	934
Materials, supplies and equipment	135	132
Total inventory	$ 4,795	$ 2,966

(6) Other Current Assets

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

	March 31, 2018	December 31, 2017
Prepaid insurance	$ 6,341	$ 8,944
Insurance receivables	1,741	1,741
Due from related parties	5,427	4,362
Other receivables	6,393	5,187
Risk management assets	5,363	3,186
Total other current assets	$ 25,265	$ 23,420

(7) Risk Management Activities

21

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

To manage the impact of the risks associated with changes in the market price of NGL, crude oil, refined products and natural gas purchases and sales in our day-to-day business, 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. In accordance with ASC 815, Derivatives and Hedging, if it is determined that a transaction designated as NPNS no longer meets the scope of the 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 March 31, 2018 and December 31, 2017, none of which were designated as hedges for accounting purposes.

	March 31, 2018		December 31, 2017	
Commodity Swaps	Volume	Maturity	Volume	Maturity
NGLs Fixed Price (gallons)	1,407,000	January 2019	—	—
Crude Oil Fixed Price (barrels)	17,000	April 2018	—	—

Interest Rate Swaps

To manage the impact of the interest rate risk associated with our Credit Agreement, as defined in Note 13 - 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.

As of March 31, 2018, and December 31, 2017, we had a combined notional principal amount of $550.0 million respectively of variable-to-fixed interest rate swap agreements. As of March 31, 2018, the maximum length of time over which we have hedged a portion of our exposure due to interest rate risk is through December 31, 2022.

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 arrangement 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 derivative, which is accounted for using the intrinsic value method, was entered into with a single counterparty, and we were not required to post collateral.

We paid no premiums during each of the three months ended March 31, 2018 and 2017. Premiums are amortized to Direct operating expenses on a straight-line basis over the one-year term of the contract. Unamortized amounts associated with the weather derivatives were approximately $0.2 million and $0.5 million as of March 31, 2018 and December 31, 2017, respectively, and are included in Other current assets on the condensed consolidated balance sheets.

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

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

Type	Balance Sheet Classification	Asset Derivatives		Liability Derivatives	
		March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Commodity derivatives	Other current assets	$5	$ —	$ —	$ —
Commodity derivatives	Accrued expenses and other current liabilities	—	—	(64)	—
Interest rate swaps	Other current assets	$5,132	$ 2,678	$ —	$ —
Interest rate swaps	Other assets net	11,524	8,807	—	—
Weather derivatives	Other current assets	$231	$ 509	$ —	$ —
	Total	$16,892	$ 11,994	$ (64)	$ —

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	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Other current assets	$5,368	$ 3,187	$ (5)	$ —	$5,363	$ 3,187
Other (noncurrent) assets, net	11,524	8,807	—	—	11,524	8,807
Total assets	$16,892	$ 11,994	$ (5)	$ —	$16,887	$ 11,994
Accrued expenses and other current liabilities	$(64)	$ —	$ 5	$ —	$(59)	$ —
Total liabilities	$(64)	$ —	$ 5	$ —	$(59)	$ —

For each of the three months ended March 31, 2018 and 2017, the realized and unrealized gains (losses) associated with our commodity, interest rate and weather derivative instruments were recorded in our condensed consolidated statements of operations as follows (in thousands):

Statement of Operations Classification	Three months ended March 31,	
	Realized	Unrealized
2018		
Gains (losses) on commodity derivatives, net	$119	$ (59)
Interest expense	1,350	5,171
Direct operating expenses	(278)	—
Total	$1,191	$ 5,112
2017		
Gains (losses) on commodity derivatives, net	$420	$ (55)
Interest expense	(65)	(317)
Direct operating expenses	(257)	—
Total	$98	$ (372)

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

(8) Property, Plant and Equipment

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

	Useful Life (in years)	March 31, 2018	December 31, 2017
Land	Infinite	$ 16,366	$ 18,145
Construction in progress	N/A	83,013	55,622
Buildings and improvements	4 to 40	15,476	16,235
Transportation equipment	5 to 15	22,597	22,697
Processing and treating plants	8 to 40	123,580	123,138
Pipelines, compressors and right-of-way	3 to 40	975,213	974,301
Storage	3 to 40	124,037	146,105
Equipment	3 to 31	61,935	80,220
Total property, plant and equipment		1,422,217	1,436,463
Accumulated depreciation		(341,320)	(340,878)
Property, plant and equipment, net		$ 1,080,897	$ 1,095,585

At March 31, 2018 and December 31, 2017, gross property, plant and equipment included $369.5 million and $367.6 million, respectively, related to our FERC regulated interstate and intrastate assets.

Depreciation and amortization expense totaled $18.6 million and $18.5 million for the three months ended March 31, 2018 and 2017, respectively. Capitalized interest was $0.6 million and $1.0 million the three months ended March 31, 2018 and 2017, respectively.

(9) Goodwill and Intangible Assets

Goodwill consists of the following (in thousands):

	March 31, 2018	December 31, 2017
Liquid Pipelines and Services	$ 35,710	$ 35,708
Terminalling Services	27,303	88,466
Offshore Pipeline and Services	4,972	4,692
Total	$ 67,985	$ 128,866

The change in goodwill in our Terminalling Services segment relates to goodwill on our Refined Products Business that was classified as held for sale at March 31, 2018, see Note 4 - Acquisitions and Dispositions.

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 30 years.

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

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

	March 31, 2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$64,744	$ (14,806)	$49,938
Customer contracts	94,692	(49,420)	45,272
Dedicated acreage	42,547	(6,560)	35,987
Collaborative arrangements	11,884	(1,627)	10,257
Noncompete agreements	1,064	(1,064)	—
Other	198	(25)	173
Total	$215,129	$ (73,502)	$141,627

	December 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$110,483	$ (29,965)	$80,518
Customer contracts	94,692	(48,173)	46,519
Dedicated acreage	42,547	(6,216)	36,331
Collaborative arrangements	11,884	(1,415)	10,469
Noncompete agreements	1,064	(1,064)	—
Other	198	(25)	173
Total	$260,868	$ (86,858)	$174,010

Amortization expense related to our intangible assets totaled $2.7 million and $6.6 million for the three months ended March 31, 2018 and 2017, respectively. The estimated aggregate annual amortization expected to be recognized for the remainder of 2018 and each of the four succeeding fiscal years is $7.6 million, $10.2 million, $10.2 million, $10.2 million and $9.3 million, respectively.

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

(10) Investments in unconsolidated affiliates

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

	Delta House [1]		Emerald Transactions					
	FPS[3]	OGL[3]	Destin[3]	Tri-States[2]	Okeanos[3]	Wilprise[2]	Cayenne JV[2]	Total
Ownership % - 12/31/2017	35.7 %	35.7 %	66.7 %	16.7 %	66.7 %	25.3%	50.0 %	
Ownership % - 3/31/2018	35.7 %	35.7 %	66.7 %	16.7 %	66.7 %	25.3%	50.0 %	
Balances at December 31, 2017	$90,412	$46,932	$124,245	$53,057	$22,445	$4,689	$6,654	$348,434
Earnings in unconsolidated affiliates	3,227	2,715	2,377	854	2,132	258	1,110	12,673
Contributions	—	—	—	—	—	—	2,018	2,018
Distributions	(2,247)	(4,278)	(10,734)	(2,034)	(4,378)	(183)	—	(23,854)
Balances at March 31, 2018	$91,392	$45,369	$115,888	$51,877	$20,199	$4,764	$9,782	$339,271

[1] Represents direct and indirect ownership interests in Class A units and common units. FPS denotes Floating Production System LLC whereas OGL denotes Oil & Gas Lateral LLC.
[2] Included in our Liquid Pipelines and Services segment.
[3] Included in our Offshore Pipelines and Services segment.

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

Balance Sheets:	March 31, 2018	December 31, 2017
Current assets	$64,381	$ 80,405
Non-current assets	1,279,417	1,288,862
Current liabilities	114,724	130,904
Non-current liabilities	$438,496	$ 436,584

	Three months ended March 31,	
Statements of Operations:	2018	2017
Revenue	$56,898	$93,870
Operating expenses	6,292	8,436
Net income	$32,845	$69,285

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

(11) Accrued Expenses and Other Current Liabilities

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

	March 31, 2018	December 31, 2017
Capital expenditures	$ 20,880	$ 10,721
Accrued interest	15,590	3,190
Convertible preferred unit distributions	8,354	—
Employee compensation	149	90
Current portion of asset retirement obligation	6,416	6,416
Additional Blackwater acquisition consideration	5,000	5,000
Transaction costs	3,732	3,408
Customer deposits	1,136	1,109
Taxes payable	4,018	5,263
Due to related parties	3,212	6,609
Deferred financing costs	—	266
Contingent liabilities associated with VKGS and Panther	2,098	2,099
Royalties, gas imbalance and leases payables	7,119	7,905
Professional fees	2,024	1,848
Accrued corporate expenses	1,697	2,487
Accrued operating expenses	4,881	6,609
Other	1,817	5,834
Total accrued expenses and other current liabilities	$ 88,123	$ 68,854

(12) 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 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, which is included in Accrued Expenses and Other Current Liabilities in our condensed consolidated balance sheet, is related to the retirement of the Midla pipeline discussed in Note 13 - Debt Obligations.

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

The following table presents activity in our asset retirement obligations for the three months ended March 31, 2018 (in thousands):

Non-current balance	$66,194
Current balance	6,416
Balances at December 31, 2017	$72,610
Additions	260
Expenditures	—
Accretion expense	440
Balances at March 31, 2018	$73,310
Less: current portion	6,416
Noncurrent asset retirement obligation	$66,894

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 March 31, 2018 and December 31, 2017.

(13) Debt Obligations

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

	March 31, 2018	December 31, 2017
Revolving credit facility	$712,600	$697,900
8.50% Senior unsecured notes, due 2021	425,000	425,000
3.77% Senior secured notes, due 2031 (non-recourse)	57,817	58,324
3.97% Senior secured notes, due 2032 (non-recourse)	31,586	32,025
Other debt [1]	2,431	4,989
Total debt obligations	1,229,434	1,218,238
Unamortized debt issuance costs [2]	(9,530)	(9,231)
Total debt	1,219,904	1,209,007
Less: Current portion, including unamortized debt issuance costs	(5,058)	(7,551)
Long term debt	$1,214,846	$1,201,456

[1] Other debt includes miscellaneous long-term obligations, which are reported in Other liabilities line items on our condensed consolidated balance sheets.

[2] Unamortized debt issuance costs related to the revolving credit facility are included in our condensed consolidated balance sheets in Other assets, net.

AMID Revolving Credit Agreement

On March 8, 2017, the Partnership, along with other subsidiaries of the Partnership (collectively, the "Borrowers") 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” or “revolving credit facility”), which increased the Borrowers’ borrowing capacity thereunder 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. The $900 million in lending commitments under the Credit Agreement includes a $30 million sublimit for borrowings by Blackwater Investments, Inc. and a $100 million sublimit for letters of credit. The Credit Agreement matures on September 5, 2019. All obligations under the Credit Agreement and the guarantees of those obligations are secured, subject to certain exceptions, by a first-priority lien on and security interest in (i) substantially all of the Borrowers’ assets and the assets of certain of the subsidiaries of the Partnership and (ii) the capital stock of certain of the Partnership’s subsidiaries.

We can elect to have loans under our Credit Agreement bear interest either at (a) a Eurodollar-based rate, plus a margin ranging from 2.00% to 3.25% depending on our total leverage ratio then in effect, or (b) 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," and (iii) a Eurodollar-based rate plus 1.00%, in each case of clause (i)-(iii), 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 ranging from 0.375% to 0.50% per annum, depending on our total leverage ratio then in effect, on the undrawn portion of the revolving loan under the Credit Agreement.

Borrowings under the Second Amended and Restated Credit Agreement are guaranteed on a senior unsecured basis by certain of our subsidiaries (the “Guarantors”). The guarantees by the Guarantors are full and unconditional and joint and several among the Guarantors. The terms of the Credit Agreement include covenants that restrict our ability to make cash distributions and acquisitions in some circumstances. The remaining principal balance and any accrued and unpaid interest will be due and payable in full at maturity, on September 5, 2019.

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 (provided that the minimum consolidated total leverage may be increased to 5.50 times adjusted consolidated EBITDA in connection with the closing of certain material acquisitions as of the end of the quarter during which such acquisition closes, and as of the end of the subsequent two quarters), 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 the first three quarters of 2017, we were in compliance with the total leverage ratio covenant of 5.50 times, 5.50 times and 5.00 times, for quarter periods ended March 31, 2017, June 30, 2017 and September 30, 2017, respectively, as described above. During the fourth quarter of 2017, we elected to be in a Specified Acquisition Period, as defined in Section 7.19 Financial Covenants of the Credit Agreement, which enables us to use a ratio of 5.50 times for the fourth quarter of 2017 as well as the first and second quarters of 2018.

As of March 31, 2018, our consolidated total leverage ratio was 5.19, our consolidated secured leverage ratio was 3.30, and our interest coverage ratio was 3.43, all of which were in compliance with the related covenants of our Credit Agreement. At March 31, 2018, letters of credit outstanding under the Credit Agreement were $31.0 million. As of March 31, 2018, we had approximately $712.6 million of borrowings outstanding.

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

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 terms of the Credit Agreement also include covenants that restrict our ability to make cash distributions and acquisitions in some circumstances. If required, ArcLight , which controls the General Partner of the Partnership, has confirmed its intent to provide financial support for the Partnership to maintain compliance with the covenants contained in the Credit Agreement through April 10, 2019.

8.50% Senior Unsecured Notes

On December 28, 2016, the Partnership and American Midstream Finance Corporation, our wholly-owned subsidiary (the “Co-Issuer” and together with the Partnership, the “Issuers”), completed the issuance and sale of $300 million aggregate principal amount of their 8.50% Senior Notes due 2021 (the "8.50% Senior Notes"). The 8.50% Senior Notes are jointly and severally guaranteed by the Guarantors. 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. The Partnership also incurred $2.7 million of direct issuance costs resulting in net proceeds related to the 8.50% Senior Notes of $291.3 million.

The 8.50% Senior Notes were offered and sold to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, and to persons, other than U.S. persons, outside the United States pursuant to Regulation S under the Securities Act. Upon the closing of the JPE Merger and the satisfaction of other conditions related thereto, the restricted cash was released from escrow and was used to repay the JPE’s revolving credit facility and to reduce borrowings under the Partnership’s Credit Agreement.

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

On December 19, 2017, the Issuers completed the issuance and sale of an additional $125 million in aggregate principal amount of 8.50% Senior Notes (the “Additional Issuance”), net of issuance cost of approximately $3.0 million. The Additional Issuance was offered and sold to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, and to persons, other than U.S. persons, outside the United States pursuant to Regulation S under the Securities Act. None of the 8.50% Senior Notes, including the Additional Issuance, have been registered under the Securities Act.

The 8.50% Senior Notes will mature on December 15, 2021 and interest on the Additional Issuance will accrue from December 15, 2017. Interest on the 8.50% Senior Notes is payable in cash semiannually in arrears on each June 15 and December 15, with interest payable on the Additional Issuance commencing June 15, 2018. Interest will be payable to holders of record on the June 1 and December 1 immediately preceding the related interest payment date and will be computed on the basis of a 360-day year consisting of twelve 30-day months. Pursuant to the registration rights agreements entered into in connection with the issuances of the 8.50% Senior Notes, additional interest on the 8.50% Senior Notes accrues at 0.25% per annum for the first 90-day period following December 23, 2017 and by an additional 0.25% per annum with respect to each subsequent 90-day period, up to a maximum additional rate of 1.00% per annum over 8.50%, until we complete an exchange offer for the 8.50% Senior Notes.

At any time prior to December 15, 2018, the Issuers may redeem up to 35% of the aggregate principal amount of 8.50% Senior Notes, at a redemption price of 108.50% of the principal amount, plus accrued and unpaid interest to the redemption date, in an amount not greater than the net cash proceeds of one or more equity offerings by the Partnership, provided that:

- at least 65% of the aggregate principal amount of the 8.50% Senior Notes remains outstanding immediately after such redemption (excluding 8.50% Senior Notes held by the Partnership and its subsidiaries); and

- the redemption occurs within 180 days of the closing of each such equity offering.

On and after December 15, 2018, the Issuers may redeem all or a part of the 8.50% Senior Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

Year	Percentage
2018	104.250%
2019	102.125%
2020 and thereafter	100.000%

The Indenture restricts the Partnership’s ability and the ability of certain of its subsidiaries to, among other things: (i) incur, assume or guarantee additional indebtedness, issue any disqualified stock or issue preferred units, (ii) create liens to secure indebtedness, (iii) pay distributions on equity securities, redeem or repurchase equity securities or redeem or repurchase subordinated securities, (iv) make investments, (v) restrict distributions, loans or other asset transfers from restricted subsidiaries, (vi) consolidate with or merge with or into, or sell substantially all of its properties to, another person, (vii) sell or otherwise dispose of assets, including equity interests in subsidiaries, (viii) enter into transactions with affiliates, (ix) engage in certain business activities and (x) enter into sale and leaseback transactions. These covenants are subject to a number of important exceptions and qualifications. If at any time the 8.50% Senior Notes are rated investment grade by either Moody’s Investors Service, Inc. or Standard & Poor’s Ratings

Services and no Default or Event of Default (as each are defined in the Indenture) has occurred and is continuing, many of such covenants will terminate and the Partnership and its subsidiaries will cease to be subject to such covenants.

The carrying value of the 8.50% Senior Notes as of March 31, 2018 is $418.1 million, which approximates the fair value as of that date of $430.4 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 MLGT and together with Midla, (the "Note Guarantors"), entered into the 3.77% Senior Note Purchase and Guaranty Agreement (the “Note Purchase Agreement”) with certain institutional investors (the “Purchasers”) whereby Midla Financing issued $60.0 million in an aggregate principal amount of 3.77% Senior Notes (non-recourse) due June 30, 2031. Principal and interest on the 3.77% Senior Notes is payable in installments on the last business day of each quarter beginning June 30, 2017 with the remaining balance payable in full on June 30, 2031. The average quarterly principal payment is approximately $1.1 million. The 3.77% Senior Notes were issued at par and provided net proceeds of approximately $57.7 million, net of debt issuance costs of $2.3 million.

Net proceeds from the 3.77% Senior Notes are restricted and will be used to fund project costs incurred in connection with the construction of the Midla-Natchez Line, the retirement of Midla’s existing 1920’s pipeline, the move of our Baton Rouge operations to the MLGT system, and the reconfiguration of the DeSiard compression system and all related ancillary facilities. These proceeds can also be used to pay costs incurred in connection with the issuance of the 3.77% Senior Notes, and for the general corporate purposes of Midla Financing. As of March 31, 2018, Restricted cash includes $15.2 million from the issuance of the 3.77% Senior Notes.

The Note Purchase Agreement includes representations and warranties, affirmative and negative covenants (including financial covenants), and events of default that are customary for a transaction of this type. Midla Financing must maintain a debt service reserve account containing six months of principal and interest payments.

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 Midla Holdings pledged the membership interests in Midla Financing to the Collateral Agent. The 3.77% Senior Notes are non-recourse to the Partnership.

As of March 31, 2018, the fair value of the 3.77% Senior Notes was $51.8 million. This estimate was based on similar private placement transactions along with changes in market interest rates which represent a Level 2 measurement.

3.97% Trans-Union Secured Senior Notes

On May 10, 2016, Trans-Union Interstate Pipeline, LP ("Trans-Union") entered into an agreement with certain institutional investors in the insurance business represented by Babson Capital Management LLC whereby Trans-Union issued $35.0 million in an aggregate principal amount of 3.97% Senior Secured Notes ("Trans-Union Senior Notes") due December 31, 2032. Principal and interest on the Trans-Union Senior Notes is payable in installments on the last business day of each quarter beginning June 30, 2016 with the remaining balance payable in full on December 31, 2032. The average quarterly principal payment is approximately $0.5 million. The Trans-Union Senior Notes were originally issued at par and provided net proceeds of approximately $34.6 million after deducting related issuance cost of approximately $0.4 million. The Partnership assumed the Trans-Union Senior Notes following the Trans-Union acquisition on November 3, 2017. As of March 31, 2018, the fair value of the 3.97% Senior Notes was approximately $28.7 million. This estimate was based on similar private placement transactions along with

changes in market interest rates which represent a Level 2 measurement.

(14) Convertible Preferred Units

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

	Series A		Series C		Total
	Units	$	Units	$	$
December 31, 2017	10,719	$191,798	8,965	$125,382	$317,180
Paid in kind unit distributions	291	—	277	—	—
March 31, 2018	11,010	$191,798	9,242	$125,382	$317,180

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. 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, the Partnership, our General Partner and AIM Midstream Holdings LLC 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, our 574 mile transmission system located in southeast Louisiana and the Gulf of Mexico, and $15.0 million in cash to us in exchange for 5,142,857 of our Series A-1 Units. The holders of Series A-1 Units receive distributions prior to any 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 at any time. As of March 31, 2018, the conversion price was $15.16 and the conversion ratio is 1 to 1.1483.

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, 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 affiliates’ 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 March 31, 2018, the conversion price was $15.16 and the conversion ratio is 1 to 1.1483.

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 the Securities Act of 1933, as amended (the “Securities Act”) pursuant to Rule 4(a)(2) under the Securities Act.

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

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 March 31, 2018, the conversion price was $13.33 and the conversion ratio is 1 to 1.0448.

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 A-1, A-2 and C Units have been classified as mezzanine equity in the condensed consolidated balance sheets.

(15) Partners’ Capital

Our capital accounts are comprised of approximately 1.3% notional General Partner interests and 98.7% limited partner interests as of March 31, 2018. 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, 2017	965	52,711
LTIP vesting	—	142
Balances at March 31, 2018	965	52,853

General Partner Units

In order for our General Partner to maintain its ownership percentage in us, our general partner paid $0.1 million for the issuance of 8,665 additional notional General Partner units for the three months ended March 31, 2017. We received no such proceeds from our General Partner and issued no additional General Partner units for the three months ended March 31, 2018.

Distributions

Preferred Units

Distributions are accrued in the current quarter under the terms of the Partnership's Fifth Amended and Restated Agreement of Limited Partnership, as amended. Such distributions are generally declared and paid in the following quarter in the form of cash or paid-in-kind ("PIK") units, or any combination thereof.

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

Distributions for the first quarter 2018 were accrued and were paid fully in cash in the second quarter 2018. Distributions in the first quarter 2017 reflect both cash and PIK payments made for distributions that were accrued in the fourth quarter 2016, and the accrual of cash and PIK units that were paid in the second quarter 2017.

Limited Partner Units (Common Units)

The distribution related to the Limited Partner units, which was declared and paid in the first quarter 2018, was 100% cash.

We made the following distributions (in thousands):

	Three months ended March 31,	
	2018	2017
Series A Units		
Cash Paid	$—	$2,527
Accrued [1]	4,542	4,296
Paid-in-kind units	—	2,733
Series C Units		
Cash Paid	—	3,627
Accrued [1]	3,812	3,627
Paid-in-kind units	—	—
Series D Units		
Cash Paid	—	962
Accrued	—	962
Limited Partner Units		
Cash Paid	21,749	24,915
General Partner Units		
Cash Paid	290	1067