MARTIN MIDSTREAM PARTNERS LP
Form 10-K
February 19, 2019

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

FORM 10-K

Mark One **Annual Report Pursuant to Section 13 or 15(d) of the**
ý **Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2018
OR
o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____.
Commission file number 000-50056

MARTIN MIDSTREAM PARTNERS L.P.

(Exact name of registrant as specified in its charter)

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

4200 Stone Road Kilgore, Texas 75662
(Address of principal executive offices) (Zip Code)

903-983-6200
(Registrant’s telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No ý

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

Indicate by check mark whether the Registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).
Yes ý No o

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Emerging growth company o

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 o No ý

As of June 30, 2018, 39,052,237 common units were outstanding. The aggregate market value of the common units held by non-affiliates of the registrant as of such date approximated $454,540,329 based on the closing sale price on that date. There were 39,049,181 of the registrant's common units outstanding as of February 19, 2019.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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PART I

Item 1. Business

References in this annual report to "we," "ours," "us" or like terms when used in a historical context refer to the assets and operations of Martin Resource Management's business contributed to us in connection with our initial public offering on November 6, 2002. References in this annual report to "Martin Resource Management" refer to Martin Resource Management Corporation and its subsidiaries, unless the context otherwise requires. References in this annual report to the "Partnership" refer to Martin Midstream Partners L.P. and its subsidiaries, unless the content otherwise requires. You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this annual report. For more detailed information regarding the basis for presentation for the following information, you should read the notes to the consolidated financial statements included elsewhere in this annual report.

Forward-Looking Statements

This annual report on Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements included in this annual report that are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), are forward-looking statements. These statements can be identified by the use of forward-looking terminology including "forecast," "may," "believe," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information. We and our representatives may from time to time make other oral or written statements that are also forward-looking statements.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of important reasons, including those discussed below in "Item 1A. Risk Factors - Risks Related to our Business."

Overview

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

- Natural gas liquids transportation and distribution services and natural gas storage;
- Terminalling and storage services for petroleum products and by-products, including the refining of naphthenic crude oil and the blending and packaging of finished lubricants;
- Sulfur and sulfur-based products gathering, processing, marketing, manufacturing and distribution; and
- Marine transportation services for petroleum products and by-products.

The petroleum products and by-products we collect, transport, store and market are produced primarily by major and independent oil and gas companies who often turn to third parties, such as us, for the transportation and disposition of these products. In addition to these major and independent oil and gas companies, our primary customers include independent refiners, large chemical companies, fertilizer manufacturers and other wholesale purchasers of these products. We operate primarily in the U.S. Gulf Coast region. This region is a major hub for petroleum refining, natural gas gathering and processing, and support services for the exploration and production industry.

We were formed in 2002 by Martin Resource Management, a privately-held company whose initial predecessor was incorporated in 1951 as a supplier of products and services to drilling rig contractors. Since then, Martin Resource Management has expanded its operations through acquisitions and internal expansion initiatives as its management identified and capitalized on the needs of producers and purchasers of petroleum products and by-products and other bulk liquids. Martin Resource Management is an important supplier and customer of ours. As of December 31, 2018, Martin Resource Management owned 15.7% of our total outstanding common limited partner units. Furthermore, Martin Resource Management controls Martin Midstream GP LLC ("MMGP"), our general partner, by virtue of its 51% voting interest in MMGP Holdings, LLC ("Holdings"), the sole member of MMGP. MMGP owns a 2% general partner interest in us and all of our incentive distribution rights. Martin Resource Management directs our business operations through its ownership interests in and control of our general partner.

We entered into an omnibus agreement dated November 1, 2002, with Martin Resource Management (the "Omnibus Agreement") that governs, among other things, potential competition and indemnification obligations among the parties to the agreement, related party transactions, the provision of general administration and support services by Martin Resource Management and our use of certain of Martin Resource Management's trade names and trademarks. Under the terms of the Omnibus Agreement, the employees of Martin Resource Management are responsible for conducting our business and operating our assets.

Martin Resource Management has operated our business since 2002. Martin Resource Management began operating our natural gas services business in the 1950s and our sulfur business in the 1960s. It began our marine transportation business in the late 1980s. It entered into our fertilizer and terminalling and storage businesses in the early 1990s. Over the last 10 years, Martin Resource Management has increased the size of our asset base through expansions and strategic acquisitions.

Primary Business Segments

Our primary business segments can be generally described as follows:

- *Terminalling and Storage.* We own or operate 19 marine shore-based terminal facilities and 14 specialty terminal facilities located primarily in the U.S. Gulf Coast region that provide storage, refining, blending, packaging, and handling services for producers and suppliers of petroleum products and by-products, including the refining of naphthenic crude oil and the blending and packaging of various grades and quantities of industrial, commercial, and automotive lubricants and greases. Our facilities and resources provide us with the ability to handle various products that require specialized treatment, such as molten sulfur and asphalt. We also provide land rental to oil and gas companies along with storage and handling services for lubricants and fuels. We provide these terminalling and storage services on a fee basis primarily under long-term contracts. A significant portion of the contracts in this segment provide for minimum fee arrangements that are not based on the volumes handled.

- *Natural Gas Services.* We distribute natural gas liquids ("NGLs"). We purchase NGLs primarily from refineries and natural gas processors. We store and transport NGLs for wholesale deliveries to refineries, industrial NGL users in Texas and the Southeastern U.S, and propane retailers. We own an NGL pipeline, which spans approximately 200 miles from Kilgore, Texas to Beaumont, Texas. We own approximately 2.4 million barrels of underground storage capacity for NGLs. Additionally, we own 100% of the interests in Cardinal Gas Storage Partners LLC ("Cardinal"), which is focused on the operation and management of natural gas storage facilities across northern Louisiana and Mississippi.

- *Sulfur Services.* We have developed an integrated system of transportation assets and facilities relating to sulfur services. We process and distribute sulfur produced by oil refineries primarily located in the U.S. Gulf Coast region. We buy and sell molten sulfur on contracts that are tied to sulfur indices and tend to provide stable margins. We process molten sulfur into prilled or pelletized sulfur at our facilities in Port of Stockton, California and Beaumont, Texas on contracts that often provide guaranteed minimum fees. The sulfur we process and handle is primarily used in the production of fertilizers and industrial chemicals. We own and operate five sulfur-based fertilizer production plants and one emulsified sulfur blending plant that manufactures primarily sulfur-based fertilizer products for wholesale distributors and industrial users. These plants are located in Texas and Illinois. Demand for our sulfur products exist in both the domestic and foreign markets, and our asset base provides additional opportunities to handle increases in U.S. supply and access to foreign demand.

- *Marine Transportation.* We operate a fleet of 31 inland marine tank barges, 17 inland push boats and one offshore tug and barge unit that transport petroleum products and by-products largely in the U.S. Gulf Coast region. We provide these transportation services on a fee basis primarily under annual contracts, and many of our customers have long standing contractual relationships with us. Our modernized asset base is attractive both to our existing customers as well as potential new customers. In addition, our fleet contains several vessels that reflect our focus on specialty products.

Significant Recent Developments

Martin Transport Inc. Stock Purchase Agreement. On October 22, 2018, we entered into a stock purchase agreement (the "Stock Purchase Agreement") with Martin Resource Management to acquire all of the issued and outstanding equity of Martin Transport, Inc. ("MTI"), a wholly-owned subsidiary of Martin Resource Management which operates a fleet of tank trucks providing transportation of petroleum products, liquid petroleum gas, chemicals, sulfur and other products, as well as owns twenty-three terminals located throughout the Gulf Coast and Midwest for total consideration of $135.0 million with a $10.0 million earn-out based on certain performance thresholds. Additionally, a post-closing working capital adjustment was finalized on January 28, 2019 which included additional consideration paid to Martin Resource Management of $2.2 million. The Stock Purchase Agreement contained customary representations and warranties. Martin Resource Management has owned and operated MTI or its predecessor for over 40 years and MTI is integral to our routine movements of sulfur and NGL's. Based on operational estimates and current transportation market conditions, this drop-down from our general partner will provide strategic long-term growth for the Partnership. This transaction closed January 2, 2019 and was effective as of January 1, 2019. As of January 1, 2019, Martin Resource Management will no longer provide land transportation services.

Divestiture of WTLPG Partnership Interest. On July 31, 2018, we completed the sale of our 20 percent non-operating interest in West Texas LPG Pipeline L.P. ("WTLPG") to ONEOK, Inc. ("ONEOK"). WTLPG owns an approximate 2,300 mile common-carrier pipeline system that primarily transports NGLs from New Mexico and Texas to Mont Belvieu, Texas for fractionation. A wholly-owned subsidiary of ONEOK, Inc. is the operator of the assets. In consideration of the sale of these assets, we received cash proceeds of $195.0 million at closing, before transaction fees and expenses. The proceeds from the sale were used to reduce outstanding borrowings under our revolving credit facility.

Credit Facility Amendment. On February 21, 2018, we amended our revolving credit facility in order to achieve two primary objectives, the first of which was to accommodate growth capital expenditures necessary for the previously announced WTLPG expansion project. Starting in the first quarter of 2018, the amendment provided short-term (5 quarters) covenant relief by increasing the total leverage ratio to 5.75 to 1.00 (first and second quarters of 2018) with step downs to 5.50 to 1.00 (third and fourth quarters of 2018 and first quarter of 2019) and to 5.25 to 1.00 beginning in the second quarter of 2019. Additionally, the facility was amended to establish an inventory financing sublimit tranche for borrowings related to our NGL (butane) marketing business, which is a part of and not in addition to the already existing commitments under the revolving credit facility. This sublimit is not to exceed $75.0 million, with seasonal step downs to $10.0 million for the months of March through June of each fiscal year. The sublimit is subject to a monthly borrowing base not to exceed 90% of the value of forward sold/hedged inventory. In conjunction with the sale of WTLPG on July 31, 2018, we amended our revolving credit facility which included, among other things, further revising our leverage covenants from the February 21, 2018 amendment (discussed in detail above). Total Indebtedness to EBITDA and Senior Secured Indebtedness to EBITDA (each as defined in the credit agreement) was amended to 5.25 times and 3.50 times, respectively. No changes were made to the Consolidated Interest Coverage Ratio (as defined in the credit agreement) of 2.50 times.

Subsequent Events

Quarterly Distribution. On January 17, 2019, we declared a quarterly cash distribution of $0.50 per common unit for the fourth quarter of 2018, or $2.00 per common unit on an annualized basis, which will be paid on February 14, 2019 to unitholders of record as of February 7, 2019.

Our Growth Strategy

The key components of our growth strategy are:

- *Pursue Organic Growth Projects*. We continually evaluate economically attractive organic expansion opportunities in existing areas of operation that will allow us to leverage our existing market position and increase the distributable cash flow from our existing assets through improved utilization and efficiency.

- *Pursue Internal Organic Growth by Attracting New Customers and Expanding Services Provided to Existing Customers*. Opportunities exist to expand our customer base and provide additional services and products to existing customers. We generally begin a relationship with a customer by transporting, storing or marketing a limited range of products and services. Expanding our customer base and our service and product offerings to existing customers is an efficient and cost effective method of achieving organic growth in revenues and cash flow.

- *Pursue Strategic Acquisitions*. We continually monitor the marketplace to identify and pursue accretive acquisitions that expand the services and products we offer or that expand our geographic presence. After acquiring other businesses, we attempt to utilize our industry knowledge, network of customers and suppliers and strategic asset base to operate the acquired businesses more efficiently and competitively, thereby increasing revenues and cash flow. Our diversified base of operations provides multiple platforms for strategic growth through acquisitions.

- *Pursue Strategic Commercial Alliances*. Many of our larger customers, which include major integrated energy companies, have established strategic alliances with midstream service providers such as us to address logistical and transportation problems or achieve operational synergies. We intend to pursue strategic commercial alliances with such customers in the future.

Competitive Strengths

Fee-Based Contracts. We generate a majority of our cash flow from fee-based contracts with our customers. A significant portion of the fee-based contracts consist of reservation charges or minimum fee arrangements, which reduce the volatility of our cash flows due to volume fluctuations.

Asset Base and Integrated Distribution Network. We operate a diversified asset base that enables us to offer our customers an integrated distribution network consisting of transportation, terminalling and storage and midstream logistical services for petroleum products and by-products.
Strategically Located Assets. A significant portion of our cash flow comes from providing various services to the oil refining industry. Accordingly, a significant portion of our assets are located in proximity to refining operations along the U.S. Gulf Coast. For example, we are one of the largest operators of marine service shore-based terminals in the U.S. Gulf Coast region providing broad geographic coverage and distribution capability of our products and services to our customers. Our natural gas storage and NGL distribution and storage assets are located in areas highly desirable for our customers. Finally, many of our sulfur services assets are strategically located to source sulfur from the largest refinery sources in the U.S.
Specialized Transportation Equipment and Storage Facilities. We have the assets and expertise to handle and transport certain petroleum products and by-products with unique requirements for transportation and storage. For example, we own facilities and resources to transport a variety of specialty products, including ammonia, molten sulfur and asphalt. Some of these specialty products require treatment across a wide range of temperatures ranging between approximately -30 to +400 degrees Fahrenheit to remain in liquid form, which our facilities are designed to accommodate. These capabilities help us enhance relationships with our customers by offering them services to handle their unique product requirements.
Strong Industry Reputation and Established Relationships with Suppliers and Customers. We have established a reputation in our industry as a reliable and cost-effective supplier of services to our customers and have a track record of safe, efficient operation of our facilities. Our management has also established long-term relationships with many of our suppliers and customers. We benefit from our management's reputation and track record and from these long-term relationships.
Experienced Management Team and Operational Expertise. Members of our executive management team and the heads of our principal business lines have a significant amount of experience in the industries in which we operate. Our management team has a successful track record of creating internal growth and completing acquisitions. Our management team's experience and familiarity with our industry and businesses are important assets that assist us in implementing our business strategies.

Terminalling and Storage Segment

Industry Overview. The U.S. petroleum distribution system moves petroleum products and by-products from oil refineries and natural gas processing facilities to end users. This distribution system is comprised of a network of terminals,

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storage facilities, pipelines, tankers, barges, railcars and trucks. Terminals play a key role in moving these products throughout the distribution system by providing storage, blending and other ancillary services.

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

The Gulf Coast region is a major hub for petroleum refining. Approximately 50% of U.S. refining capacity exists in this region. Growth in the refining and natural gas processing industries has increased the volume of petroleum products and by-products that are transported within the Gulf Coast region, which consequently has increased the need for terminalling and storage services.

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

Specialty Petroleum Terminals. We own or operate 12 terminalling facilities providing storage, handling and transportation of various petroleum products and by-products. The locations and capabilities of our terminals are structured to complement our other businesses and reflect our strategy to provide a broad range of integrated services in the storage, handling and transportation of products. We developed our terminalling and storage assets by acquisition and upgrades of existing facilities as well as developing our own properties strategically located near rail, waterways and pipelines. We anticipate further expansion of our terminalling facilities through both acquisition and organic growth.

At the Neches and Stanolind terminals, our customers are primarily energy or petrochemical companies. We charge either a fixed monthly fee or a throughput fee for the use of our facilities based on the capacity of the applicable tank. We conduct a substantial portion of our terminalling and storage operations under long-term contracts, which enhances the stability and predictability of our operations and cash flow. We attempt to balance our short-term and long-term terminalling contracts in order to allow us to maintain a consistent level of cash flow while maintaining flexibility to earn higher storage revenues when demand for storage space increases. In addition, a significant portion of the contracts for our specialty terminals provide for minimum fee arrangements that are not based on the volume handled.

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

In Smackover, Arkansas, we own and operate a terminal used for lubricant blending, processing, packaging, marketing and distribution. This terminal is used as our central hub for branded and private label packaged lubricants where we receive, package and ship heavy-duty, passenger car, and industrial lubricants to a network of retailers and distributors.

In Kansas City, Missouri, we lease and operate a plant that specializes in the processing and packaging of automotive, commercial and industrial greases.

In Houston, Texas, we own and operate a plant that specializes in the processing and packaging of post tension greases.

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

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

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

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

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

The following is a summary description of our shore-based specialty terminals:

Terminal	**Location**	**Aggregate Capacity (in barrels)**	**Products**	**Description**
Tampa (1)	Tampa, Florida	719,000	Asphalt and fuel oil	Marine terminal, loading/unloading for vessels, barges, railcars and trucks
Stanolind	Beaumont, Texas	593,000	Asphalt, crude oil, sulfur, sulfuric acid and fuel oil	Marine terminal, marine dock for loading/unloading of vessels, barges, railcars and trucks
Neches (2)	Beaumont, Texas	548,000	Molten sulfur, formed sulfur, ammonia, asphalt, fuel oil, crude oil and sulfur-based fertilizer	Marine terminal, loading/unloading for vessels, barges, railcars and trucks

(1) This terminal is located on land owned by the Tampa Port Authority that was leased to us under a 10-year lease that expires in December 2021. This lease may be extended at the option of the tenant for one option period of five years.

(2) The Neches terminal is a deep water marine terminal located near Beaumont, Texas, on approximately 50 acres of land owned by us, and an additional 96 acres leased to us under terms of a 20-year lease commencing May 1, 2014 with three five-year options.

The following is a summary description of our non shore-based specialty terminals:

Terminal	**Location**	**Aggregate Capacity**	**Products**	**Description**
Smackover Refinery	Smackover, Arkansas	7,700 barrels per day; 275,000 barrels of crude bulk storage; 647,000 barrels of lubricant storage	Naphthenic lubricants, distillates, asphalt, crude oil	Crude refining facility
Martin Lubricants	Smackover, Arkansas	3.9 million gallons bulk storage	Agricultural, automotive, and industrial lubricants and grease	Lubricants packaging facility
Martin Lubricants (1)	Kansas City, Missouri	0.2 million gallons of bulk storage	Automotive, commercial and industrial greases	Grease manufacturing and packaging facility
Martin Lubricants	Houston, Texas	0.2 million gallons of bulk storage	Post tension greases	Grease manufacturing and packaging facility
Hondo Asphalt	Hondo, Texas	182,000 barrels	Asphalt	Asphalt processing and storage
South Houston Asphalt	Houston, Texas	95,000 barrels	Asphalt	Asphalt processing and storage

Port Neches Asphalt	Port Neches, Texas	24,000 barrels	Asphalt	Asphalt processing and storage
Omaha Asphalt	Omaha, Nebraska	112,000 barrels	Asphalt	Asphalt processing and storage
Spindletop	Beaumont, Texas	90,000 barrels	Natural gasoline	Pipeline receipts and shipments

(1) This terminal contains a warehouse owned by third parties and leased under a lease that expires in December 2020 and can be extended by us for two successive five-year periods.

Marine Shore-Based Terminals. We own or operate 19 marine shore-based terminals along the Gulf Coast from Theodore, Alabama to Corpus Christi, Texas. Our terminalling assets are located at strategic distribution points for the products we handle and are in close proximity to our customers. We are one of the largest operators of marine shore-based terminals in the Gulf Coast region. These terminals are used to distribute and market fuel and lubricants. Additionally, full service terminals also provide shore bases for companies that are operating in the offshore exploration and production industry. Customers are primarily oil and gas exploration and production companies and oilfield service companies, such as drilling fluid companies, marine transportation companies and offshore construction companies. Shore bases typically provide logistical support, including the storing and handling of tubular goods, loading and unloading bulk materials, providing facilities from which major and independent oil companies can communicate with and control offshore operations and leasing dockside facilities to companies which provide complementary products and services such as drilling fluids and cementing services. We generate revenues from our terminals that have shore bases by fees that we charge our customers under land rental contracts for the use of our terminal facility for these shore bases. These contracts generally provide us a fixed land rental fee and additional rental fees that are determined based on a percentage of the sales value of the products and services delivered from the shore base. In addition, Martin Resource Management, through terminalling service agreements, pays us for terminalling and storage of fuels and lubricants at these terminal facilities and includes a provision for minimum volume throughput requirements.

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

Full Service Terminals. We own or operate 6 full service terminals. These facilities provide logistical support services and storage and handling services for fuel and lubricants. The significant difference between our full service terminals and our fuel and lubricant terminals is that our full service terminals generate additional revenues by providing shore bases to support our customer's operating activities related to the offshore exploration and production industry. One typical use for our shore bases is for drilling fluids manufacturers to manufacture and sell drilling fluids to the offshore drilling industry. Offshore drilling companies may also set up service facilities at these terminals to support their offshore operations. Customers of our full service terminals are primarily oil and gas exploration and production companies, oilfield service companies such as drilling fluids companies, marine transportation companies and offshore construction companies.

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

Terminal	**Location**	**Aggregate Capacity (barrels)**	**End of Lease (Including Options)**
Amelia	Amelia, Louisiana	13,000	August 2023
Fourchon 15	Fourchon, Louisiana	7,600	February 2047
Harbor Island (1)	Harbor Island, Texas	6,800	December 2039
Intracoastal City 2 (2)	Intracoastal City, Louisiana	17,700	December 2025
Pelican Island	Galveston, Texas	87,600	Own
Theodore	Theodore, Alabama	19,900	Own

(1) A portion of this terminal is owned.
(2) This terminal is currently in caretaker status.

Fuel and Lubricant Terminals. We own or operate 13 lubricant and fuel terminals located in the Gulf Coast region that provide storage and handling services for lubricants and fuel oil.

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

Terminal	Location	Aggregate Capacity (barrels)	End of Lease (Including Options)
Dulac (1)	Dulac, Louisiana	15,400	December 2041
Dock 193 (3)	Gueydan, Louisiana	11,000	May 2020
Fourchon	Fourchon, Louisiana	80,900	May 2027
Fourchon 16	Fourchon, Louisiana	16,400	July 2048
Galveston T (2)	Galveston, Texas	1,400	Own
Intracoastal City (2)	Intracoastal City, Louisiana	—	Own
Jennings Bulk Plant	Jennings, Louisiana	9,100	Own
Channelview	Houston, Texas	39,800	Own
Lake Charles T	Lake Charles, Louisiana	1,000	April 2023
Pascagoula (2)	Pascagoula, Mississippi	10,100	Own
Port Arthur	Port Arthur, Texas	16,300	November 2025
Port O'Connor (1)	Port O'Connor, Texas	6,700	March 2028
Sabine Pass (2)	Sabine Pass, Texas	16,700	September 2036

(1) This terminal is currently in caretaker status and the lease will not be renewed at the end of the current option.
(2) These terminals are currently in caretaker status.
(3) A portion of this terminal is owned.

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

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

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

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

Natural Gas Services Segment

Industry Overview. NGLs are produced through natural gas processing and as a by-product of crude oil refining. NGLs include ethane, propane, normal butane, iso butane and natural gasoline.

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

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

- storage of NGLs ;
- efficient use of railroad tank cars
- the transportation fleet of vehicles owned by MTI; and
- product management expertise to obtain supplies when needed.

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

NGL Facility	**Location**	**Capacity**	**Description**
Wholesale terminals	Arcadia, Louisiana	2,400,000 barrels	Underground storage
Retail terminals	Kilgore, Texas	90,000 gallons	Retail propane distribution
	Longview, Texas	30,000 gallons	Retail propane distribution
	Henderson, Texas	12,000 gallons	Retail propane distribution
Rail terminal	Arcadia, Louisiana	24 railcars per day	NGL railcar loading and unloading capabilities

In addition to the owned NGL facilities above, we lease underground storage capacity at four locations under short-term lease agreements.

Our NGL customers consist of refiners, industrial processors and retail propane distributors. The majority of our NGL volumes are sold to refiners and industrial processors.

Seasonality. The level of NGL supply and demand is subject to changes in domestic production, weather, inventory levels and other factors. While production is not seasonal, residential, refinery, and wholesale demand is highly seasonal. This imbalance causes increases in inventories during summer months when consumption is low and decreases in inventories during winter months when consumption is high. In September, demand for normal butane typically increases with refineries entering the winter gasoline-blending season, resulting in upward pressure on prices. Abnormally cold weather can put extra upward pressure on propane prices during the winter.

Competition. We compete with large integrated NGL producers and marketers, as well as small local independent marketers. The primary components of competition related to our natural gas storage operations are location, rates, terms and flexibility of service and supply. Our natural gas storage facilities compete with other storage providers and increased competition could result from newly developed storage facilities or expanded capacity from existing competitors.

Natural Gas Storage

Natural gas storage facilities provide a staging and warehousing function for seasonal swings in demand relative to supply, as well as an essential reliability cushion against disruptions in natural gas supply, demand and transportation by allowing natural gas to be injected into, withdrawn from or warehoused in such storage facilities as dictated by market conditions. The long term demand for storage services in the U.S. is driven primarily by the long-term demand for natural gas and the overall lack of balance between the supply of and demand for natural gas on a seasonal, monthly, daily or other basis. In general and on a long-term basis, to the extent the overall demand for natural gas increases and such growth includes higher demand from seasonal or weather-sensitive end-users (such as gas-fired power generators and residential and commercial consumers), demand for natural gas storage services should also grow. In addition, any factors that contribute to more frequent and severe imbalances between the supply of and demand for natural gas, whether caused by supply or demand fluctuations, should increase the need for and the value of storage services. On a short term basis, storage demand and values are also significantly influenced by operational imbalances, near term seasonal spreads, shorter term spreads and basis differentials.

We own 100% of the interests in Cardinal, which is focused on the operation and management of natural gas storage facilities across northern Louisiana and Mississippi.

Cardinal facilities are summarized below:

Facility Name / Location	Facility Type	Working Storage Capacity	Percent of Capacity Contracted (1)	Weighted Average Life of Remaining Contract Term
Arcadia Gas Storage, LLC Bienville Parish, Louisiana	Salt dome	15.25 billion cubic feet (bcf)	100%	2.2 years
Cadeville Gas Storage, LLC Ouachita Parish, Louisiana	Depleted reservoir	17.0 bcf	100%	4.4 years
Perryville Gas Storage, LLC Franklin Parish, Louisiana	Salt dome	11.85 bcf	74%	2.2 years
Monroe Gas Storage Company, LLC Monroe County, Mississippi	Depleted reservoir	6.7 bcf	100%	3.0 years

(1) Contracted capacity refers specifically to firm contracted capacity.

These facilities were developed to provide producers, end users, local distribution companies, pipelines and energy marketers with high-deliverability storage services and hub services.

Sulfur Services Segment

Industry Overview. Sulfur is a natural element and is required to produce a variety of industrial products. In the U.S., approximately 9 million tons of sulfur are consumed annually with the Tampa, Florida area being the largest single market. Currently, all sulfur produced in the U.S. is "recovered sulfur," or sulfur that is a by-product from oil refineries and natural gas processing plants. Sulfur production in the U.S. is principally located along the Gulf Coast, along major inland waterways and in some areas of the western U.S.

Sulfur is an important plant nutrient and is primarily used in the manufacture of phosphate fertilizers and other industrial purposes. The primary application of sulfur in fertilizers occurs in the form of sulfuric acid. Burning sulfur creates sulfur dioxide, which is subsequently oxidized and dissolved in water to create sulfuric acid. The sulfuric acid is then combined with phosphate rock to make phosphoric acid, the base material for most high-grade phosphate fertilizers.

Sulfur-based fertilizers are manufactured chemicals containing nutrients known to improve the fertility of soils. Nitrogen, phosphorus, potassium and sulfur are the four most important nutrients for crop growth. These nutrients are found naturally in soils. However, soils used for agriculture become depleted of nutrients and require fertilizers rich in nutrients to restore fertility.

Industrial sulfur products (including sulfuric acid) are used in a wide variety of industries. For example, these products are used in power plants, paper mills, auto and tire manufacturing plants, food processing plants, road construction, cosmetics and pharmaceuticals.

Our Operations and Products. We maintain an integrated system of transportation assets and facilities relating to our sulfur services. We gather molten sulfur from refiners, primarily located on the Gulf Coast. We transport sulfur by inland and offshore barges, railcars and trucks. In the U.S., recovered sulfur is mainly kept in liquid form from production to usage at a temperature of approximately 275 degrees Fahrenheit. Because of the temperature requirement, the sulfur industry uses specialized equipment to store and transport molten sulfur. We have the necessary assets and expertise to handle the unique requirements for transportation and storage of molten sulfur.

Terms for our standard purchase and sales contracts typically range from one to two years in length with prices that are usually tied to a published market indicator and fluctuate according to the price movement of the indicator. We also provide barge transportation and tank storage services to large producers and consumers of sulfur under contracts with remaining terms from one to five years in duration.

We operate sulfur forming assets in the Port of Stockton, California and Beaumont, Texas, which are used to convert molten sulfur into solid form (prills/granules). The Stockton facility is equipped with one wet prill unit capable of processing 1,000 metric tons of molten sulfur per day. The Beaumont facility is equipped with two wet prill units and one granulation unit capable of processing a combined 5,500 metric tons of molten sulfur per day. Formed sulfur at both facilities is stored in bulk until sold into local or international agricultural markets. Our forming services contracts are fee based and typically include minimum fee guarantees.

Our sulfuric acid production facility at our Plainview, Texas location processes molten sulfur to produce a dedicated supply of raw material sulfuric acid to our ammonium sulfate production plant. The ammonium sulfate plant produces approximately 400 tons per day of quality ammonium sulfate and is marketed to our customers throughout the U.S. The sulfuric acid produced and not consumed by the captive ammonium sulfate production is sold to third parties.

Fertilizer and related sulfur products are a natural extension of our molten sulfur business because of our access to sulfur and our distribution capabilities.

In the U.S., fertilizer is generally sold to farmers through local dealers. These dealers are typically owned and supplied by much larger wholesale distributors. We sell to these wholesale distributors. Our industrial sulfur products are marketed primarily in the southern U.S., where many paper manufacturers and power plants are located. Our products are sold in accordance with price lists that vary from state to state. These price lists are updated periodically to reflect changes in seasonal or competitive prices. We transport our fertilizer and industrial sulfur products to our customers using third-party common carriers. We utilize barge and rail shipments for large volume and long distance shipments where available.

We manufacture and market the following sulfur-based fertilizer and related sulfur products:

- Plant nutrient sulfur products. We produce plant nutrient and agricultural ground sulfur products at our facilities in Odessa, Texas, Seneca, Illinois and Cactus, Texas. Our plant nutrient sulfur product is a 90% degradable sulfur product marketed under the Disper-Sul® trade name and sold throughout the U.S. to direct application agricultural markets.

- Ammonium sulfate products. We produce various grades of ammonium sulfate including granular, coarse, standard, and 40% ammonium sulfate solution. These products primarily serve direct application agricultural markets. We package these custom grade products under both proprietary and private labels and sell them to major retail distributors and other retail customers.

- Industrial sulfur products. We produce industrial sulfur products such as elemental pastille sulfur, industrial ground sulfur products, and emulsified sulfur. We produce elemental pastille sulfur at our Odessa, Texas and Seneca, Illinois facilities. Elemental pastille sulfur is used to increase the efficiency of the coal-fired precipitators in the power industry. These industrial ground sulfur products are also used in a variety of dusting and wettable

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sulfur applications such as rubber manufacturing, fungicides, sugar and animal feeds. We produce emulsified sulfur at our Nash, Texas facility. Emulsified sulfur is primarily used to control the sulfur content in the pulp and paper manufacturing processes.

- Liquid sulfur products. We produce ammonium thiosulfate at our Neches terminal facility in Beaumont, Texas. This agricultural sulfur product is a clear liquid containing 12% nitrogen and 26% sulfur. This product serves as a liquid plant nutrient used directly through spray rigs or irrigation systems. It is also blended with other nitrogen phosphorus potassium liquids or suspensions as well. Our market is predominantly the Mid-South U.S. and Coastal Bend area of Texas.

Our Sulfur Services Facilities. We own 26 railcars and lease 42 railcars equipped to transport molten sulfur. We own the following marine assets and use them to transport molten sulfur between U.S. Gulf Coast storage terminals (including our terminal in Beaumont, Texas) under third-party marine transportation agreements:

Asset	**Class of Equipment**	**Capacity/Horsepower**	**Products Transported**
Margaret Sue	Offshore tank barge	10,500 long tons	Molten sulfur
M/V Martin Explorer	Offshore tugboat	7,130 horsepower	N/A
M/V Martin Express	Inland push boat	1,200 horsepower	N/A
MGM 101	Inland tank barge	2,500 long tons	Molten sulfur
MGM 102	Inland tank barge	2,500 long tons	Molten sulfur

We operate the following sulfur forming facilities as part of our sulfur services business:

Terminal	**Location**	**Daily Production Capacity**	**Products Stored**
Neches	Beaumont, Texas	5,500 metric tons per day	Molten, prilled and granulated sulfur
Stockton	Stockton, California	1,000 metric tons per day	Molten and prilled sulfur

We lease 132 railcars to transport our fertilizer products. We own the following manufacturing plants as part of our sulfur services business:

Facility	**Location**	**Annual Capacity**	**Description**
Fertilizer plant	Plainview, Texas	150,000 tons	Fertilizer production
Fertilizer plant	Beaumont, Texas	110,000 tons	Liquid sulfur fertilizer production
Fertilizer plants	Odessa, Texas	35,000 tons	Dry sulfur fertilizer production
Fertilizer plant	Seneca, Illinois	36,000 tons	Dry sulfur fertilizer production
Fertilizer plant	Cactus, Texas	20,000 tons	Dry sulfur fertilizer production
Industrial sulfur plant	Nash, Texas	18,000 tons	Emulsified sulfur production
Sulfuric acid plant	Plainview, Texas	150,000 tons	Sulfuric acid production

Competition. The Martin Explorer/Margaret Sue articulated barge unit is one of four vessels currently used to transport molten sulfur between U.S. ports on the Gulf of Mexico and Tampa, Florida. Phosphate fertilizer manufacturers consume a majority of the sulfur produced in the U.S., which they purchase directly from both producers and resellers. As a reseller, we compete against producers and other resellers capable of accessing the required transportation and storage assets. Our sulfur-based fertilizer products compete with several large fertilizer and sulfur product manufacturers. However, the close proximity of our manufacturing plants to our customer base is a competitive advantage for us in the markets we serve and allows us to minimize freight costs and respond quickly to customer requests. Our sulfuric acid products compete with regional producers and importers in the South and Southwest portion of the U.S. from Louisiana to California.

Seasonality. Sales of our agricultural fertilizer products are partly seasonal as a result of increased demand during the growing season.

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Marine Transportation Segment

Industry Overview. The inland waterway system is composed of a network of interconnected rivers and canals that serve as water highways and is used to transport vast quantities of products annually. This waterway system extends approximately 26,000 miles, of which 12,000 miles are generally considered significant for domestic commerce.

The Gulf Coast region is a major hub for petroleum refining. The petroleum refining process generates products and by-products that require transportation in large quantities from the refinery or processor. Convenient access to and use of this waterway system by the petroleum and petrochemical industry is a major reason for the current location of U.S. refineries and petrochemical facilities. The marine transportation industry uses push boats and tugboats as power sources and tank barges for freight capacity. The combination of the power source and tank barge freight capacity is called a tow.

Marine Fleet. We utilize a fleet of inland and offshore tows that provide marine transportation of petroleum products and by-products produced in oil refining and natural gas processing. Our marine transportation business operates coastwise along the Gulf of Mexico and East Coast and on the U.S. inland waterway system, primarily between domestic ports along the Gulf of Mexico, Intracoastal Waterway, the Mississippi River system and the Tennessee-Tombigbee Waterway system. Our inland tows generally consist of one push boat and one to three tank barges, depending upon the horsepower of the push boat, the river or canal capacity and conditions, and customer requirements. Our offshore tow consists of one tugboat, with much greater horsepower than an inland push boat, and one large tank barge. We transport asphalt, fuel oil, gasoline, sulfur and other bulk liquids.

The following is a summary description of the marine vessels we use in our marine transportation business (excluding equipment classified as Assets Held for Sale):

Class of Equipment	Number in Class	Capacity/Horsepower	Description of Products Carried
Inland tank barges	7	Under 20,000 barrels	Asphalt, crude oil, fuel oil, gasoline and sulfur
Inland tank barges	24	20,000 - 31,000 barrels	Asphalt, crude oil, fuel oil and gasoline
Inland push boats	17	800 - 2,650 horsepower	N/A
Offshore tank barge	1	59,000 barrels	Diesel fuel
Offshore tugboat	1	5,100 horsepower	N/A

Our largest marine transportation customers include major and independent oil and gas refining companies, petroleum marketing companies and Martin Resource Management. We conduct our marine transportation services on a fee basis primarily under spot contracts.

We are a party to a marine transportation agreement under which we provide marine transportation services to Martin Resource Management on a spot contract basis at applicable market rates. Effective each January 1, this agreement automatically renews for consecutive one-year periods unless either party terminates the agreement by giving written notice to the other party at least 60 days prior to the expiration of the then-applicable term.

Competition. We compete primarily with other marine transportation companies. Competition in this industry has historically been based primarily on price. However, customers are placing an increased emphasis on the age of equipment, safety, environmental compliance, quality of service and the availability of a single source of supply of services.

In addition to competitors that provide marine transportation services, we also compete with providers of other modes of transportation, such as rail, trucks and, to a lesser extent, pipelines. For example, a typical two inland barge unit carries a volume of product equal to approximately 80 railcars or 250 tanker trucks. Pipelines generally provide a less expensive form of transportation than marine transportation. However, pipelines are not able to transport most of the products we transport and are generally a less flexible form of transportation because they are limited to the fixed point-to-point distribution of commodities in high volumes over extended periods of time.

Our Relationship with Martin Resource Management

Martin Resource Management is engaged in the following principal business activities:

- providing land transportation of various liquids using a fleet of trucks and road vehicles and road trailers (the Partnership acquired MTI effective January 1, 2019);
- distributing fuel oil, asphalt, marine fuel and other liquids;
- providing marine bunkering and other shore-based marine services in Texas, Louisiana, Mississippi, Alabama, and Florida;
- operating a crude oil gathering business in Stephens, Arkansas;
- providing crude oil gathering, refining, and marketing services of base oils, asphalt, and distillate products in Smackover, Arkansas;
- providing crude oil marketing and transportation from the well head to the end market;
- operating an environmental consulting company;
- operating an engineering services company;
- supplying employees and services for the operation of our business; and
- operating, solely for our account, the asphalt facilities in Omaha, Nebraska, Port Neches, Texas, Hondo, Texas, and South Houston, Texas.

We are and will continue to be closely affiliated with Martin Resource Management as a result of the following relationships.

Ownership

Martin Resource Management owns approximately 15.7% of the outstanding limited partner units. In addition, Martin Resource Management controls MMGP, our general partner, by virtue of its 51% voting interest in Holdings, the sole member of MMGP. MMGP owns a 2% general partner interest in us and all of our incentive distribution rights.

Management

Martin Resource Management directs our business operations through its ownership interests in and control of our general partner. We benefit from our relationship with Martin Resource Management through access to a significant pool of management expertise and established relationships throughout the energy industry. We do not have employees. Martin Resource Management employees are responsible for conducting our business and operating our assets on our behalf.

Related Party Agreements

The Omnibus Agreement with Martin Resource Management requires us to reimburse Martin Resource Management for all direct expenses it incurs or payments it makes on our behalf or in connection with the operation of our business. We reimbursed Martin Resource Management for $127.9 million, $129.5 million and $135.8 million of direct costs and expenses for the years ended December 31, 2018, 2017 and 2016, respectively. There is no monetary limitation on the amount we are required to reimburse Martin Resource Management for direct expenses.

In addition to the direct expenses, under the Omnibus Agreement, we are required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. For the years ended December 31, 2018, 2017, and 2016, the conflicts committee of our general partner ("Conflicts Committee") approved reimbursement amounts of $16.4 million, $16.4 million and $13.0 million, respectively, reflecting our allocable share of such expenses. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually. These indirect expenses covered the centralized corporate functions Martin Resource Management provides for us, such as accounting, treasury, clerical, engineering, legal, billing, information technology, administration of insurance, environmental and safety compliance, general office expenses and employee benefit plans and other general corporate overhead functions we share with Martin Resource Management's retained businesses. The Omnibus Agreement also contains significant non-compete provisions and indemnity obligations. Martin Resource Management also licenses certain of its trademarks and trade names to us under the Omnibus Agreement.

Other agreements include, but are not limited to, a motor carrier agreement, marine transportation agreements, terminal services agreements, a tolling agreement, and a sulfuric acid sales agency agreement. Pursuant to the terms of the Omnibus Agreement, we are prohibited from entering into certain material agreements with Martin Resource Management without the approval of the Conflicts Committee.

For a more comprehensive discussion concerning the Omnibus Agreement and the other agreements that we have entered into with Martin Resource Management, please see "Item 13. Certain Relationships and Related Transactions, and Director Independence."

Commercial

We have been and anticipate that we will continue to be both a significant customer and supplier of products and services offered by Martin Resource Management. Our motor carrier agreement with Martin Resource Management provides us with access to Martin Resource Management's fleet of road vehicles and road trailers to provide land transportation in the areas served by Martin Resource Management (the Partnership acquired MTI effective January 1, 2019). Our ability to utilize MTI's land transportation operations is currently a key component of our integrated distribution network.

In the aggregate, our purchases from Martin Resource Management accounted for approximately 9%, 8%, and 11% of our total cost of products sold during for the years ended December 31, 2018, 2017 and 2016, respectively. We also purchase marine fuel from Martin Resource Management, which we account for as an operating expense.

Correspondingly, Martin Resource Management is one of our significant customers. Our sales to Martin Resource Management accounted for approximately 10%, 11%, and 13% of our total revenues for each of the years ended December 31, 2018, 2017 and 2016, respectively. We have entered into certain agreements with Martin Resource Management pursuant to which we provide terminalling and storage and marine transportation services to its subsidiary, Martin Energy Services LLC ("MES"), and MES provides terminal services to us to handle lubricants, greases and drilling fluids. Additionally, we have entered into a long-term, fee for services-based tolling agreement with Martin Resource Management where Martin Resource Management agrees to pay us for the processing of its crude oil into finished products, including naphthenic lubricants, distillates, asphalt and other intermediate cuts.

For a more comprehensive discussion concerning the Omnibus Agreement and the other agreements that we have entered into with Martin Resource Management, please see "Item 13. Certain Relationships and Related Transactions, and Director Independence."

Approval and Review of Related Party Transactions

If we contemplate entering into a transaction, other than a routine or in the ordinary course of business transaction, in which a related person will have a direct or indirect material interest, the proposed transaction is submitted for consideration to the board of directors of our general partner or to our management, as appropriate. If the board of directors is involved in the approval process, it determines whether to refer the matter to the Conflicts Committee, as provided under our limited partnership agreement. If a matter is referred to the Conflicts Committee, it obtains information regarding the proposed transaction from management and determines whether to engage independent legal counsel or an independent financial advisor to advise the members of the committee regarding the transaction. If the Conflicts Committee retains such counsel or financial advisor, it considers such advice and, in the case of a financial advisor, such advisor’s opinion as to whether the transaction is fair and reasonable to us and to our unitholders.

Insurance

Our deductible for onshore physical damage resulting from named windstorms is 5% of the total value located at an individual location subject to an overall minimum deductible of $1.0 million for damage caused by the named windstorm at all locations excluding Neches Industrial Park. Our onshore program currently provides $40.0 million per occurrence for named windstorm events. For non-windstorm events, our deductible applicable to onshore physical damage is $0.5 million per occurrence. Business interruption coverage in connection with a windstorm event is subject to the same $40.0 million per occurrence and aggregate limit as the property damage coverage and has a waiting period of 45 days. For non-windstorm events, our waiting period applicable to business interruption is 30 days.

We have various pollution liability policies which provide coverages ranging from remediation of our property to third party liability. The limits of these policies vary based on our assessments of exposure at each location.

Loss of, or damage to, our vessels and cargo is insured through hull and cargo insurance policies. Vessel operating liabilities such as collision, cargo, environmental and personal injury are insured primarily through our participation in mutual insurance associations and other reinsurance arrangements, pursuant to which we are potentially exposed to assessments in the event claims by us or other members exceed available funds and reinsurance. Protection and indemnity ("P&I") insurance coverage is provided by P&I associations and other insurance underwriters. Our vessels are entered in P&I associations that are parties to a pooling agreement, known as the International Group Pooling Agreement ("Pooling Agreement") through which approximately 90% of the world's ocean-going tonnage is reinsured through a group reinsurance policy. With regard to collision coverage, the first $1.0 million of coverage is insured by our hull policy and any excess is insured by a P&I association. We insure our owned cargo through a domestic insurance company. We insure cargo owned by third parties through our P&I coverage. As a member of P&I associations that are parties to the Pooling Agreement, we are subject to supplemental calls payable to the associations of which we are a member, based on our claims record and the other members of the other P&I associations that are parties to the Pooling Agreement. Except for our marine operations, we self-insure against liability exposure up to a predetermined amount, beyond which we are covered by catastrophe insurance coverage.

For marine claims, our insurance covers up to $1.0 billion of liability per accident or occurrence. We believe our current insurance coverage is adequate to protect us against most accident related risks involved in the conduct of our business. However, there can be no assurance that all risks are adequately insured against, that any particular claim will be paid by the insurer, or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

Environmental and Regulatory Matters

Our activities are subject to various federal, state and local laws and regulations, as well as orders of regulatory bodies, governing a wide variety of matters, including marketing, production, pricing, community right-to-know, protection of the environment, safety and other matters.

Environmental

We are subject to complex federal, state, and local environmental laws and regulations governing the discharge of materials into the environment or otherwise relating to protection of human health, natural resources and the environment. These laws and regulations can impair our operations that affect the environment in many ways, such as requiring the acquisition of permits to conduct regulated activities; restricting the manner in which we can release materials into the environment; requiring remedial activities or capital expenditures to mitigate pollution from former or current operations; and imposing substantial liabilities on us for pollution resulting from our operations. Many environmental laws and regulations can impose joint and several, strict liability, and any failure to comply with environmental laws and regulations may result in the assessment of administrative, civil, and criminal penalties, the imposition of investigatory and remedial obligations, and, in some circumstances, the issuance of injunctions that can limit or prohibit our operations.

The clear trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and, thus, any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, there is inherent risk of incurring significant environmental costs and liabilities in the performance of our operations due to our handling of petroleum products and by-products, chemical substances, and wastes as well as the accidental release or spill of such materials into the environment. Consequently, we cannot provide assurance that we will not incur significant costs and liabilities as result of such handling practices, releases or spills, including those relating to claims for damage to property and persons. In the event of future increases in costs, we may be unable to pass on those increases to our customers. While we believe that we are in substantial compliance with current environmental laws and regulations and that continued compliance with existing requirements would not have a material adverse impact on us, we cannot provide any assurance that our environmental compliance expenditures will not have a material adverse effect on us in the future.

Superfund

The Federal Comprehensive Environmental Response, Compensation and Liability Act, as amended, ("CERCLA"), also known as the "Superfund" law, and similar state laws, impose liability without regard to fault or the legality of the original conduct, on certain classes of "responsible persons," including the owner or operator of a site where regulated hazardous substances have been released into the environment and companies that disposed or arranged for the disposal of the hazardous substances found at such site. Under CERCLA, these responsible persons may be subject to joint and several strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. Although certain hydrocarbons are not subject to CERCLA’s reach because "petroleum" is excluded from CERCLA’s definition of a "hazardous substance," in the course of our ordinary operations we will generate wastes that may fall within the definition of a "hazardous substance." In addition, some state counterparts to CERCLA tie liability to a broader set of substances than does CERCLA.

Solid Waste

We generate both hazardous and nonhazardous solid wastes, which are subject to requirements of the federal Resource Conservation and Recovery Act, as amended ("RCRA") and comparable state statutes. From time to time, the U.S. Environmental Protection Agency ("EPA") has considered making changes in nonhazardous waste standards that would result in stricter disposal requirements for these wastes. Furthermore, it is possible some wastes generated by us that are currently classified as nonhazardous may in the future be designated as "hazardous wastes," resulting in the wastes being subject to more rigorous and costly disposal requirements. Changes in applicable regulations may result in an increase in our capital expenditures or operating expenses.

We currently own or lease, and have in the past owned or leased, properties that have been used for the manufacturing, processing, transportation and storage of petroleum products and by-products. Solid waste disposal practices within oil and gas related industries have improved over the years with the passage and implementation of various environmental laws and regulations. Nevertheless, a possibility exists that petroleum and other solid wastes may have been disposed of on or under various properties owned or leased by us during the operating history of those facilities. In addition, a number of these properties have been operated by third parties over whom we had no control as to such entities’ handling of petroleum, petroleum by-products or other wastes and the manner in which such substances may have been disposed of or released. State and federal laws and regulations applicable to oil and natural gas wastes and properties have gradually become more strict and, under such laws and regulations, we could be required to remove or remediate previously disposed wastes or property contamination, including groundwater contamination, even under circumstances where such contamination resulted from past operations of third parties.

Clean Air Act

Our operations are subject to the federal Clean Air Act ("CAA"), as amended, and comparable state statutes. Amendments to the CAA adopted in 1990 contain provisions that may result in the imposition of increasingly stringent pollution control requirements with respect to air emissions from the operations of our terminal facilities, processing and storage facilities and fertilizer and related products manufacturing and processing facilities. Such air pollution control requirements may include specific equipment or technologies to control emissions, permits with emissions and operational limitations, pre-approval of new or modified projects or facilities producing air emissions, and similar measures. Failure to comply with applicable air statutes or regulations may lead to the assessment of administrative, civil or criminal penalties, and/or result in the limitation or cessation of construction or operation of certain air emission sources. We believe our operations, including our manufacturing, processing and storage facilities and terminals, are in substantial compliance with applicable requirements of the CAA and analogous state laws.

Global Warming and Climate Change. Recent scientific studies have suggested that emissions of certain gases, commonly referred to as "greenhouse gases" and including carbon dioxide and methane, may be contributing to warming of the Earth's atmosphere. In response to such studies, the U.S. Congress has from time to time considered climate change-related legislation to restrict greenhouse gas emissions. Many states have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Also, as a result of the U.S. Supreme Court's decision on April 2, 2007, in *Massachusetts, et al. v. EPA*, the EPA eventually concluded that it is required to regulate greenhouse gas emissions from mobile sources (e.g., cars and trucks) even if Congress does not adopt new legislation specifically addressing emissions of greenhouse gases. The Court's holding in *Massachusetts* that greenhouse gases fall under the federal CAA's definition of air pollutant has

also led the EPA to determine that regulation of greenhouse gas emissions from stationary sources under various Clean Air Act programs is required. To that end, EPA promulgated regulations, referred to as the Tailoring Rule, 75 Fed. Red. 31514, to begin gradually subjecting stationary greenhouse gas emission sources to various Clean Air Act programs, including permitting programs applicable to new and existing major sources of greenhouse gas emissions. In reviewing the regulations at issue, the Supreme Court struck down EPA's permitting requirements as applicable only to greenhouse gas emissions, although it upheld the EPA's authority to control greenhouse gas emissions when a permit is required due to emissions of other pollutants.
On an international level, almost 200 nations agreed in December 2015 to an international climate change agreement in Paris, France that calls for countries to set their own greenhouse gas emissions targets and be transparent about the measures each country will use to achieve its emissions targets. Although the present administration has announced its intention to withdraw from the Paris accord, such withdrawal has not yet been finalized. It is not possible at this time to predict how or when the United States might impose restrictions on GHGs as a result of the international climate change agreement. Further, several states and local governments have stated their commitment to its principles in their effectuation of policy and regulations. To date, applicable requirements have not had a substantial effect upon our operations. Still, new legislation or regulatory programs that restrict emissions of greenhouse gases in areas in which we conduct business could adversely affect our operations and demand for our services.

Moreover, in interpretative guidance on climate change disclosures, the U.S. Securities and Exchange Commission ("SEC") indicates that climate change could have an effect on the severity of weather (including hurricanes and floods), sea levels, the arability of farmland, and water availability and quality. If such effects were to occur, our operations have the potential to be adversely affected. Potential adverse effects could include disruption of our business activities, including, for example, damages to our facilities from powerful winds or floods, or increases in our costs of operation or reductions in the efficiency of our operations, as well as potentially increased costs for insurance coverages in the aftermath of such effects. Significant physical effects of climate change could also have an indirect effect on our financing and operations by disrupting the transportation or process related services provided by companies or suppliers with whom we have a business relationship. In addition, the demand for and consumption of our products and services (due to change in both costs and weather patterns), and the economic health of the regions in which we operate, could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may not be able to recover through insurance some or any of the damages, losses or costs that may result from potential physical effects of climate change.

Clean Water Act

The Federal Water Pollution Control Act of 1972, as amended, also known as Clean Water Act and comparable state laws impose restrictions and strict controls regarding the discharge of pollutants, including hydrocarbon-bearing wastes, into state waters and waters of the U.S. Pursuant to the Clean Water Act and similar state laws, a National Pollutant Discharge Elimination System permit, or a state permit, or both, must be obtained to discharge pollutants into federal and state waters. In addition, the Clean Water Act and comparable state laws require that individual permits or coverage under general permits be obtained by subject facilities for discharges of storm water runoff. Furthermore, the Clean Water Act potentially requires individual permits or qualification for nationwide permits for activities that involve the discharge of dredged or fill material into waters of the United States, the definition of which was expanded by the EPA and Corps of Engineers in a 2015 rulemaking. The 2015 rule, if it were to become effective, could significantly expand federal control of land and water resources across the U.S., triggering substantial additional permitting and regulatory requirements to which our operations may be subject from time to time. The EPA and the Corps subsequently proposed a rulemaking in June 2017 to repeal the 2015 rule and also announced their intent to issue a new rule defining the CWA's jurisdiction. The EPA and the Corps issued a final rule in January 2018 staying implementation of the 2015 rule for two years. On December 11, 2018, the EPA and the Corps proposed a new rule defining the CWA's jurisdiction. A nationwide patchwork of litigation and court rulings developed regarding the rules. At this time, due to varied court rulings, the 2015 rule is effective in some states, while the agencies' decision to delay implementation of the 2015 rule is effective in other states. If finalized, the 2018 proposed rule would apply nationwide, replacing the national patchwork of CWA jurisdictional applicability. Additionally, if finalized, it is possible that the 2018 proposed rule could be challenged. The scope of the CWA's jurisdiction will likely remain fluid until a final regulatory determination is made and subsequent litigation, if any, is finalized. To the extent a rule ultimately promulgated expands the scope of the CWA's jurisdiction, we could face increased costs and delays with respect to permitting. We believe that we are in substantial compliance with Clean Water Act permitting requirements as well as the conditions imposed thereunder, and that our continued compliance with such existing permit conditions will not have a material adverse effect on our business, financial condition or results of operations.

Oil Pollution Act

The Oil Pollution Act of 1990, as amended ("OPA") imposes a variety of regulations on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in U.S. waters. A "responsible party" includes the owner or operator of a facility or vessel or the lessee or permittee of the area in which an offshore facility is located. The OPA assigns liability to each responsible party for oil removal costs and a variety of public and private damages including natural resource damages. Under the OPA, vessels and shore facilities handling, storing, or transporting oil are required to develop and implement oil spill response plans, and vessels greater than 300 tons in weight must provide to the U.S. Coast Guard evidence of financial responsibility to cover the costs of cleaning up oil spills from such vessels. The OPA also requires that all newly constructed tank barges engaged in oil transportation in the U.S. be double hulled effective January 1, 2016. We believe we are in substantial compliance with all of the oil spill-related and financial responsibility requirements. Nonetheless, in the aftermath of the Deepwater Horizon incident in 2010, Congress has from time to time considered oil spill related legislation that could have the effect of substantially increasing financial responsibility requirements and potential fines and damages for violations and discharges subject to the OPA, and similar legislation. Any such changes in law affecting areas where we conduct business could materially affect our operations.

Safety Regulation

The Company’s marine transportation operations are subject to regulation by the U.S. Coast Guard, federal laws, state laws and certain international treaties. Tank ships, push boats, tugboats and barges are required to meet construction and repair standards established by the American Bureau of Shipping, a private organization, and the U.S. Coast Guard and to meet operational and safety standards presently established by the U.S. Coast Guard. We believe our marine operations and our terminals are in substantial compliance with current applicable safety requirements.

Occupational Health Regulations

The workplaces associated with our manufacturing, processing, terminal and storage facilities are subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. We believe we have conducted our operations in substantial compliance with OSHA requirements, including general industry standards, record keeping requirements and monitoring of occupational exposure to regulated substances. Our marine vessel operations are also subject to safety and operational standards established and monitored by the U.S. Coast Guard.

In general, we expect to increase our expenditures relating to compliance with likely higher industry and regulatory safety standards such as those described above. These expenditures cannot be accurately estimated at this time, but we do not expect them to have a material adverse effect on our business.

Jones Act

The Jones Act is a federal law that restricts maritime transportation between locations in the U.S. to vessels built and registered in the U.S. and owned and manned by U.S. citizens. Since we engage in maritime transportation between locations in the U.S., we are subject to the provisions of the law. As a result, we are responsible for monitoring the ownership of our subsidiaries that engage in maritime transportation and for taking any remedial action necessary to ensure that no violation of the Jones Act ownership restrictions occurs. The Jones Act also requires that all U.S.-flagged vessels be manned by U.S. citizens. Foreign-flagged seamen generally receive lower wages and benefits than those received by U.S. citizen seamen. This requirement significantly increases operating costs of U.S.-flagged vessel operations compared to foreign-flagged vessel operations. Certain foreign governments subsidize their nations’ shipyards. This results in lower shipyard costs both for new vessels and repairs than those paid by U.S.-flagged vessel owners. The U.S. Coast Guard and American Bureau of Shipping maintain the most stringent regimen of vessel inspection in the world, which tends to result in higher regulatory compliance costs for U.S.-flagged operators than for owners of vessels registered under foreign flags of convenience.

Merchant Marine Act of 1936

The Merchant Marine Act of 1936 is a federal law that provides that, upon proclamation by the President of the U.S. of a national emergency or a threat to the national security, the U.S. Secretary of Transportation may requisition or purchase any vessel or other watercraft owned by U.S. citizens (including us, provided that we are considered a U.S. citizen for this purpose). If one of our push boats, tugboats or tank barges were purchased or requisitioned by the U.S. government under this law, we would be entitled to be paid the fair market value of the vessel in the case of a purchase or, in the case of a requisition, the fair market value of charter hire. However, if one of our push boats or tugboats is requisitioned or purchased and its associated tank barge is left idle, we would not be entitled to receive any compensation for the lost revenues resulting from the idled barge. We also would not be entitled to be compensated for any consequential damages we suffer as a result of the requisition or purchase of any of our push boats, tugboats or tank barges.

Employees

We do not have any employees. Under our Omnibus Agreement with Martin Resource Management, Martin Resource Management provides us with corporate staff and support services. These services include centralized corporate functions, such as accounting, treasury, engineering, information technology, insurance, administration of employee benefit plans and other corporate services. Martin Resource Management employs approximately 735 individuals, including 57 employees represented by labor unions, who provide direct support to our operations as of December 31, 2018.

Financial Information about Segments

Information regarding our operating revenues and identifiable assets attributable to each of our segments is presented in Note 19 to our consolidated financial statements included in this annual report on Form 10-K.

Access to Public Filings

We provide public access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the SEC under the Securities and Exchange Act of 1934. These documents may be accessed free of charge on our website at the following address: www.martinmidstream.com. These documents are provided as soon as is reasonably practicable after their filing with the SEC. This website address is intended to be an inactive, textual reference only, and none of the material on this website is part of this report. These documents may also be found at the SEC's website at www.sec.gov.

Item 1A. Risk Factors

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a business similar to ours. If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected. In this case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and unitholders could lose all or part of their investment. These risk factors should be read in conjunction with the other detailed information concerning us set forth herein.

Risks Relating to Our Business

Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the risks set forth below. The risks described below should not be considered to be comprehensive and all-inclusive. Many of such factors are beyond our ability to control or predict. Unitholders are cautioned not to put undue reliance on forward-looking statements. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations, financial condition and results of operations.

We may not have sufficient cash after the establishment of cash reserves and payment of our general partner's expenses to enable us to pay the minimum quarterly distribution each quarter.

We may not have sufficient available cash each quarter in the future to pay the minimum quarterly distributions on all our units. Under the terms of our partnership agreement, we must pay our general partner's expenses and set aside any cash reserve amounts before making a distribution to our unitholders. The amount of cash we can distribute on our common units principally depends upon the amount of net cash generated from our operations, which will fluctuate from quarter to quarter based on, among other things:

- the costs of acquisitions, if any;
- the prices of petroleum products and by-products;
- fluctuations in our working capital;
- the level of capital expenditures we make;
- restrictions contained in our debt instruments and our debt service requirements;
- our ability to make working capital borrowings under our credit facility; and
- the amount, if any, of cash reserves established by our general partner in its discretion.

Unitholders should also be aware that the amount of cash we have available for distribution depends primarily on our cash flow, including cash flow from working capital borrowings, and not solely on profitability, which will be affected by non-cash items. In addition, our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and the establishment of reserves, each of which can affect the amount of cash available for distribution to our unitholders. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Restrictions in our credit facility could prevent us from making distributions to our unitholders.

The payment of principal and interest on our indebtedness reduces the cash available for distribution to our unitholders. In addition, we are prohibited by our credit facility from making cash distributions during a default or an event of default under our credit facility or if the payment of a distribution would cause a default or an event of default thereunder. Our leverage and various limitations in our credit facility may reduce our ability to incur additional debt, engage in certain transactions, and capitalize on acquisition or other business opportunities that could increase cash flows and distributions to our unitholders.

Demand for a portion of our terminalling and storage services is substantially dependent on the level of offshore oil and gas exploration, development and production activity.

The level of offshore oil and gas exploration, development and production activity historically has been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors that are beyond our control, including:

- prevailing oil and natural gas prices and expectations about future prices and price volatility;

- the ability of exploration and production companies to drill in other basins that have more attractive rates of return;

- the cost of offshore exploration for and production and transportation of oil and natural gas;
- worldwide demand for oil and natural gas;
- consolidation of oil and gas and oil service companies operating offshore;
- availability and rate of discovery of new oil and natural gas reserves in offshore areas;
- local and international political and economic conditions and policies;
- technological advances affecting energy production and consumption;
- weather conditions;
- environmental regulation; and
- the ability of oil and gas companies to generate or otherwise obtain funds for exploration and production.

We expect levels of offshore oil and gas exploration, development and production activity to continue to be volatile and affect demand for our terminalling and storage services.

Debt we owe or incur in the future could limit our flexibility to obtain financing and to pursue other business opportunities.

Our indebtedness could have important consequences, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- our funds available for operations, future business opportunities and distributions to unitholders will be reduced by that portion of our cash flows required to make interest payments on the debt;
- we may be more vulnerable to competitive pressures or a downturn in our business or the economy generally; and
- our flexibility in responding to changing business and economic conditions may be limited.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service any future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets or seeking additional equity capital. We may not be able to effect any of these actions on satisfactory terms or at all.

Fluctuations in interest rates could materially affect our financial results.

Because a significant portion of our debt bears interest at variable rates, increases in interest rates could materially increase our interest expense. Based on our debt outstanding as of December 31, 2018, if interest rates were to increase by 100 basis points, the corresponding increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $2.9 million per year.

Further, LIBOR and certain other interest rate "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. As a result of this transition, LIBOR may disappear entirely or perform differently than in the past, and interest rates on our variable rate indebtedness may be adversely affected.

If we do not have sufficient capital resources for acquisitions or opportunities for expansion, our growth will be limited.

We intend to explore acquisition opportunities in order to expand our operations and increase our profitability. We may finance acquisitions through public and private financing, or we may use our limited partner interests for all or a portion of the consideration to be paid in acquisitions. Distributions of cash with respect to these equity securities or limited partner interests may reduce the amount of cash available for distribution to the common units. In addition, in the event our limited partner interests do not maintain a sufficient valuation, or potential acquisition candidates are unwilling to accept our limited partner interests as all or part of the consideration, we may be required to use our cash resources, if available, or rely on other financing arrangements to pursue acquisitions. If we use funds from operations, other cash resources or increased borrowings for an acquisition, the acquisition could adversely impact our ability to make our minimum quarterly distributions to our unitholders. Additionally, if we do not have sufficient capital resources or are not able to obtain financing on terms acceptable to us for acquisitions, our ability to implement our growth strategies may be adversely impacted.

A higher cost of capital relative to our peers could limit our ability to grow through acquisitions.

In order to expand our operations and increase profitability, we explore acquisition opportunities. When competing for acquisition targets, firms with a lower cost of capital will be in a stronger position to secure the acquisition. A higher cost of capital relative to our peers could put us in a weaker position to grow through acquisitions.

We are exposed to counterparty risk in our credit facility and related interest rate protection agreements.

We rely on our credit facility to assist in financing a significant portion of our working capital, acquisitions and capital expenditures. Our ability to borrow under our credit facility may be impaired because:

- one or more of our lenders may be unable or otherwise fail to meet its funding obligations;

- the lenders do not have to provide funding if there is a default under the credit facility or if any of the representations or warranties included in the credit facility are false in any material respect; and

- if any lender refuses to fund its commitment for any reason, whether or not valid, the other lenders are not required to provide additional funding to make up for the unfunded portion.

If we are unable to access funds under our credit facility, we will need to meet our capital requirements, including some of our short-term capital requirements, using other sources. Alternative sources of liquidity may not be available on acceptable terms, if at all. If the cash generated from our operations or the funds we are able to obtain under our credit facility or other sources of liquidity are not sufficient to meet our capital requirements, then we may need to delay or abandon capital projects or other business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we have from time to time entered into interest rate protection agreements to manage our interest rate risk exposure by fixing a portion of the interest expense we pay on our long-term debt under our credit facility. Uncertainty in the global economy and banking markets exists, which could affect whether the counterparties to such interest rate protection agreements are able to honor their agreements. If the counterparties fail to honor their commitments, we could experience higher interest rates, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if the counterparties fail to honor their commitments, we also may be required to replace such interest rate protection agreements with new interest rate protection agreements, and such replacement interest rate protection agreements may be at higher rates than our current interest rate protection agreements, which could have a material adverse effect on our business, financial condition and results of operations.

The impacts of climate-related initiatives at the international, federal and state levels remain uncertain at this time.

Currently, there are numerous international, federal and state-level initiatives and proposals addressing domestic and global climate issues. Within the U.S., most of these proposals would regulate and/or tax, in one fashion or another, the production of carbon dioxide and other "greenhouse gases" to facilitate the reduction of carbon compound emissions to the atmosphere and provide tax and other incentives to produce and use more "clean energy." Costs to comply with future climate-related initiatives could have a material impact on our business, financial condition and results of operations.

Our recent and future acquisitions may not be successful, may substantially increase our indebtedness and contingent liabilities and may create integration difficulties.

As part of our business strategy, we intend to acquire businesses or assets we believe complement our existing operations. We may not be able to successfully integrate recent or any future acquisitions into our existing operations or achieve the desired profitability from such acquisitions. These acquisitions may require substantial capital expenditures and the incurrence of additional indebtedness. If we make acquisitions, our capitalization and results of operations may change significantly. Further, any acquisition could result in:

- post-closing discovery of material undisclosed liabilities of the acquired business or assets;
- the unexpected loss of key employees or customers from the acquired businesses;
- difficulties resulting from our integration of the operations, systems and management of the acquired business; and
- an unexpected diversion of our management's attention from other operations.

If recent or any future acquisitions are unsuccessful or result in unanticipated events or if we are unable to successfully integrate acquisitions into our existing operations, such acquisitions could adversely affect our results of operations, cash flow and ability to make distributions to our unitholders.

Adverse weather conditions, including droughts, hurricanes, tropical storms and other severe weather, could reduce our results of operations and ability to make distributions to our unitholders.

Our distribution network and operations are primarily concentrated in the Gulf Coast region and along the Mississippi River inland waterway. Weather in these regions is sometimes severe (including tropical storms and hurricanes) and can be a major factor in our day-to-day operations. Our marine transportation operations can be significantly delayed, impaired or postponed by adverse weather conditions, such as fog in the winter and spring months and certain river conditions. Additionally, our marine transportation operations and our assets in the Gulf of Mexico, including our barges, push boats, tugboats and terminals, can be adversely impacted or damaged by hurricanes, tropical storms, tidal waves or other related events. Demand for our lubricants and the diesel fuel we throughput in our Terminalling and Storage segment can be affected if offshore drilling operations are disrupted by weather in the Gulf of Mexico.

National weather conditions have a substantial impact on the demand for our products. Unusually warm weather during the winter months can cause a significant decrease in the demand for NGL products. Likewise, extreme weather conditions (either wet or dry) can decrease the demand for fertilizer. For example, an unusually wet spring can delay planting of seeds, which can leave insufficient time to apply fertilizer at the planting stage. Conversely, drought conditions can kill or severely stunt the growth of crops, thus eliminating the need to nurture plants with fertilizer. Any of these or similar conditions could result in a decline in our net income and cash flow, which would reduce our ability to make distributions to our unitholders.

If we incur material liabilities that are not fully covered by insurance, such as liabilities resulting from accidents on rivers or at sea, spills, fires or explosions, our results of operations and ability to make distributions to our unitholders could be adversely affected.

Our operations are subject to the operating hazards and risks incidental to terminalling and storage, marine transportation and the distribution of petroleum products and by-products and other industrial products. These hazards and risks, many of which are beyond our control, include:

- accidents on rivers or at sea and other hazards that could result in releases, spills and other environmental damages, personal injuries, loss of life and suspension of operations;
- leakage of NGLs, natural gas, and other petroleum products and by-products;
- fires and explosions;
- damage to transportation, terminalling and storage facilities and surrounding properties caused by natural disasters; and

- terrorist attacks or sabotage.

Our insurance coverage may not be adequate to protect us from all material expenses related to potential future claims for personal-injury and property damage, including various legal proceedings and litigation resulting from these hazards and risks. If we incur material liabilities that are not covered by insurance, our operating results, cash flow and ability to make distributions to our unitholders could be adversely affected.

Changes in the insurance markets attributable to the effects of hurricanes and their aftermath may make some types of insurance more difficult or expensive for us to obtain. As a result, we may be unable to secure the levels and types of insurance we would otherwise have secured prior to such events. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage.

The price volatility of petroleum products and by-products could reduce our liquidity and results of operations and ability to make distributions to our unitholders.

We purchase petroleum products and by-products, such as molten sulfur, fuel oils, NGLs (including normal butane), lubricants, and other bulk liquids and sell these products to wholesale and bulk customers and to other end users. We also generate revenues through the terminalling and storage of certain products for third parties. The price and market value of petroleum products and by-products could be, and has recently been, volatile. Our liquidity and revenues have been adversely affected by this volatility during periods of decreasing prices because of the reduction in the value and resale price of our inventory. In addition, our liquidity and costs have been adversely affected during periods of increasing prices because of the increased costs associated with our purchase of petroleum products and by-products. Future price volatility could have an adverse impact on our liquidity and results of operations, cash flow and ability to make distributions to our unitholders.

Increasing energy prices could adversely affect our results of operations.

Increasing energy prices could adversely affect our results of operations. Diesel fuel, natural gas, chemicals and other supplies are recorded in operating expenses. An increase in price of these products would increase our operating expenses, which could adversely affect our results of operations including net income and cash flows. We cannot assure unitholders that we will be able to pass along increased operating expenses to our customers.

Decreasing energy prices could adversely affect our results of operations.

Decreasing energy prices could adversely affect our results of operations. If commodity prices remain weak for a sustained period, our pipeline, terminalling throughput and NGL volumes may be negatively impacted, particularly as producers are curtailing or redirecting drilling, adversely affecting our results of operations. A sustained decline in commodity prices could result in a decrease in activity in the areas served by certain of our terminalling and storage and marine transportation assets resulting in reduced utilization of these assets.

Increased competition from alternative natural gas transportation and storage options and alternative fuel sources could have a significant financial impact on us.

Our ability to renew or replace existing contracts at rates sufficient to maintain current revenues and cash flows could be adversely affected by activities of other interstate and intrastate pipelines and storage facilities that may expand or construct competing transportation and storage systems. In addition, future pipeline transportation and storage capacity could be constructed in excess of actual demand and with lower fuel requirements, operating and maintenance costs than our facilities, which could reduce the demand for and the rates that we receive for our services in particular areas. Further, natural gas also competes with alternative energy sources available to our customers that are used to generate electricity, such as hydroelectric power, solar, wind, nuclear, coal and fuel oil.

Our NGL and sulfur-based fertilizer products are subject to seasonal demand and could cause our revenues to vary.

The demand for NGLs and natural gas is highest in the winter. Therefore, revenue from our natural gas services business is higher in the winter than in other seasons. Our sulfur-based fertilizer products experience an increase in demand during the spring, which increases the revenue generated by this business line in this period compared to other periods. The seasonality of the revenue from these products may cause our results of operations to vary on a quarter-to-quarter basis and thus could cause our cash available for quarterly distributions to fluctuate from period to period.

The highly competitive nature of our industry could adversely affect our results of operations and ability to make distributions to our unitholders.

We operate in a highly competitive marketplace in each of our primary business segments. Most of our competitors in each segment are larger companies with greater financial and other resources than we possess. We may lose customers and future business opportunities to our competitors and any such losses could adversely affect our results of operations and ability to make distributions to our unitholders.

Our business is subject to compliance with environmental laws and regulations that could expose us to significant costs and liabilities and adversely affect our results of operations and ability to make distributions to our unitholders.

Our business is subject to federal, state and local environmental laws and regulations governing the discharge of materials into the environment or otherwise relating to protection of human health, natural resources and the environment. These laws and regulations may impose numerous obligations that are applicable to our operations, such as: requiring the acquisition of permits to conduct regulated activities; restricting the manner in which we can release materials into the environment; requiring remedial activities or capital expenditures to mitigate pollution from former or current operations; and imposing substantial liabilities on us for pollution resulting from our operations. Numerous governmental authorities, such as the U.S. Environmental Protection Agency and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly actions. Many environmental laws and regulations can impose joint and several strict liability, and any failure to comply with environmental laws, regulations and permits may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory and remedial obligations and, in some circumstances, the issuance of injunctions that can limit or prohibit our operations. The clear trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and, thus, any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal or remediation requirements could have a material adverse effect on our operations and financial position.

The loss or insufficient attention of key personnel could negatively impact our results of operations and ability to make distributions to our unitholders.

Our success is largely dependent upon the continued services of members of the senior management team of Martin Resource Management. Those senior officers have significant experience in our businesses and have developed strong relationships with a broad range of industry participants. The loss of any of these executives could have a material adverse effect on our relationships with these industry participants, our results of operations and our ability to make distributions to our unitholders.

We do not have employees. We rely solely on officers and employees of Martin Resource Management to operate and manage our business. Martin Resource Management operates businesses and conducts activities of its own in which we have no economic interest. There could be competition for the time and effort of the officers and employees who provide services to our general partner. If these officers and employees do not or cannot devote sufficient attention to the management and operation of our business, our results of operations and ability to make distributions to our unitholders may be reduced.

Our loss of significant commercial relationships with Martin Resource Management could adversely impact our results of operations and ability to make distributions to our unitholders.

Martin Resource Management provides us with various services and products pursuant to various commercial contracts. The loss of any of these services and products provided by Martin Resource Management could have a material adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders. Additionally, we provide terminalling and storage, processing and marine transportation services to Martin Resource Management to support its businesses under various commercial contracts. The loss of Martin Resource Management as a customer could have a material adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders.

Our business could be adversely affected if operations at our transportation, terminalling and storage and distribution facilities experienced significant interruptions. Our business could also be adversely affected if the operations of our customers and suppliers experienced significant interruptions.

Our operations are dependent upon our terminalling and storage facilities and various means of transportation. We are also dependent upon the uninterrupted operations of certain facilities owned or operated by our suppliers and customers. Any significant interruption at these facilities or inability to transport products to or from these facilities or to or from our customers for any reason would adversely affect our results of operations, cash flow and ability to make distributions to our unitholders.

Operations at our facilities and at the facilities owned or operated by our suppliers and customers could be partially or completely shut down, temporarily or permanently, as the result of any number of circumstances that are not within our control, such as:

- catastrophic events, including hurricanes;
- environmental remediation;
- labor difficulties; and
- disruptions in the supply of our products to our facilities or means of transportation.

Additionally, terrorist attacks and acts of sabotage could target oil and gas production facilities, refineries, processing plants, terminals and other infrastructure facilities. Any significant interruptions at our facilities, facilities owned or operated by our suppliers or customers, or in the oil and gas industry as a whole caused by such attacks or acts could have a material adverse effect on our results of operations, cash flow and ability to make distributions to our unitholders.

NASDAQ does not require a publicly traded partnership like us to comply with certain of its corporate governance requirements, and therefore, unitholders do not have the same protections afforded to shareholders of corporations subject to all NASDAQ requirements.

Because we are a publicly traded partnership, the Nasdaq Global Select Market ("NASDAQ") does not require our general partner to have a majority of independent directors on its board of directors or to establish a compensation committee or nominating and corporate governance committee. Accordingly, unitholders do not have the same protections afforded to certain corporations that are subject to all of NASDAQ corporate governance requirements.

Our marine transportation business could be adversely affected if we do not satisfy the requirements of the Jones Act or if the Jones Act were modified or eliminated.

The Jones Act is a federal law that restricts domestic marine transportation in the U.S. to vessels built and registered in the U.S. Furthermore, the Jones Act requires that the vessels be manned and owned by U.S. citizens. If we fail to comply with these requirements, our vessels lose their eligibility to engage in coastwise trade within U.S. domestic waters.

The requirements that our vessels be U.S. built and manned by U.S. citizens, the crewing requirements and material requirements of the Coast Guard and the application of U.S. labor and tax laws significantly increase the costs of U.S. flagged vessels when compared with foreign-flagged vessels. During the past several years, certain interest groups have lobbied Congress to repeal the Jones Act to facilitate foreign flag competition for trades and cargoes reserved for U.S. flagged vessels under the Jones Act and cargo preference laws. If the Jones Act were to be modified to permit foreign competition that would not be subject to the same U.S. government imposed costs, we may need to lower the prices we charge for our services in order to compete with foreign competitors, which would adversely affect our cash flow and ability to make distributions to our unitholders.

Our marine transportation business could be adversely affected if the U.S. Government purchases or requisitions any of our vessels under the Merchant Marine Act.

We are subject to the Merchant Marine Act of 1936, which provides that, upon proclamation by the President of the U.S. of a national emergency or a threat to the national security, the U.S. Secretary of Transportation may requisition or purchase any vessel or other watercraft owned by U.S. citizens (including us, provided that we are considered a U.S. citizen for this purpose). If one of our push boats, tugboats or tank barges were purchased or requisitioned by the U.S. government under this law, we would be entitled to be paid the fair market value of the vessel in the case of a purchase or, in the case of a requisition, the fair market value of charter hire. However, if one of our push boats or tugboats is requisitioned or purchased and its associated tank barge is left idle, we would not be entitled to receive any compensation for the lost revenues resulting from the idled barge. We also would not be entitled to be compensated for any consequential damages we suffer as a result of the requisition or purchase of any of our push boats, tugboats or tank barges. If any of our vessels are purchased or requisitioned for an extended period of time by the U.S. government, such transactions could have a material adverse effect on our results of operations, cash flow and ability to make distributions to our unitholders.

Our interest rate swap activities could have a material adverse effect on our earnings, profitability, liquidity, cash flows and financial condition.

We enter into interest rate swap agreements from time to time to manage some of our exposure to interest rate volatility. These swap agreements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements. In addition, these arrangements may not be effective in reducing our exposure to changes in interest rates. When we use forward-starting interest rate swaps, there is a risk that we will not complete the long-term borrowing against which the swap is intended to hedge. If such events occur, our results of operations may be adversely affected.

The industry in which we operate is highly competitive, and increased competitive pressure could adversely affect our business and operating results.

We compete with similar enterprises in our respective areas of operation. Some of our competitors are large oil, natural gas and petrochemical companies that have greater financial resources and access to supplies of NGLs than we do. Our customers who produce NGLs may develop their own systems to transport NGLs in lieu of using ours. Our ability to renew or replace existing contracts with our customers at rates sufficient to maintain current revenues and cash flows could be adversely affected by the activities of our competitors and our customers. All of these competitive pressures could have a material adverse effect on our business, results of operations, financial condition and ability to make cash distributions to our unitholders.

Information technology systems present potential targets for cyber security attacks, which could adversely affect our business.

We are reliant on technology to improve efficiency in our business. Information technology systems are critical to our operations. These systems could be a potential target for a cyber security attack as they are used to store and process sensitive information regarding our operations, financial position, and information pertaining to our customers and vendors. While we take the utmost precautions, we cannot guarantee safety from all threats and attacks. Any successful breach of security could result in the spread of inaccurate or confidential information, disruption of operations, environmental harm, endangerment of employees, damage to our assets, and increased costs to respond. Any of these instances could have a negative impact on cash flows, litigation status and/or our reputation, which could have a material adverse affect on our business, financial conditions and operations.

Risks Relating to an Investment in the Common Units

Units available for future sales by us or our affiliates could have an adverse impact on the price of our common units or on any trading market that may develop.

Common units will generally be freely transferable without restriction or further registration under the Securities Act, except that any common units held by an "affiliate" of ours may not be resold publicly except in compliance with the registration requirements of the Securities Act or under an exemption under Rule 144 or otherwise.

Our partnership agreement provides that we may issue an unlimited number of limited partner interests of any type without a vote of the unitholders. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without unitholder approval, in a number of circumstances such as:

•the issuance of common units in additional public offerings or in connection with acquisitions that increase cash flow from operations on a pro forma, per unit basis;

- the conversion of subordinated units into common units;

- the conversion of units of equal rank with the common units into common units under some circumstances; or

- the conversion of our general partner's general partner interest in us and its incentive distribution rights into common units as a result of the withdrawal of our general partner.

Our partnership agreement does not restrict our ability to issue equity securities ranking junior to the common units at any time. Any issuance of additional common units or other equity securities would result in a corresponding decrease in the proportionate ownership interest in us represented by, and could adversely affect the cash distributions to and market price of, common units then outstanding.

Under our partnership agreement, our general partner and its affiliates have the right to cause us to register under the Securities Act and applicable state securities laws the offer and sale of any units that they hold. Subject to the terms and conditions of our partnership agreement, these registration rights allow the general partner and its affiliates or their assignees holding any units to require registration of any of these units and to include any of these units in a registration by us of other units, including units offered by us or by any unitholder. Our general partner will continue to have these registration rights for two years following its withdrawal or removal as a general partner. In connection with any registration of this kind, we will indemnify each unitholder participating in the registration and its officers, directors, and controlling persons from and against any liabilities under the Securities Act or any applicable state securities laws arising from the registration statement or prospectus. Except as described below, the general partner and its affiliates may sell their units in private transactions at any time, subject to compliance with applicable laws. Our general partner and its affiliates, with our concurrence, have granted comparable registration rights to their bank group to which their partnership units have been pledged.

The sale of any common or subordinated units could have an adverse impact on the price of the common units or on any trading market that may develop.

Unitholders have less power to elect or remove management of our general partner than holders of common stock in a corporation. It is unlikely that our common unitholders will have sufficient voting power to elect or remove our general partner without the consent of Martin Resource Management and its affiliates.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and therefore limited ability to influence management's decisions regarding our business. Unitholders did not elect our general partner or its directors and will have no right to elect our general partner or its directors on an annual or other continuing basis. Holdings, the sole member of MMGP, elects the board of directors of our general partner.

If unitholders are dissatisfied with the performance of our general partner, they will have a limited ability to remove our general partner. Our general partner generally may not be removed except upon the vote of the holders of at least 66 2/3% of the outstanding units voting together as a single class. As of December 31, 2018, Martin Resource Management owned 15.7% of our total outstanding common limited partner units.

Unitholders' voting rights are further restricted by our partnership agreement provision prohibiting any units held by a person owning 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of our general partner's directors, from voting on any matter. In addition, our partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

As a result of these provisions, it will be more difficult for a third party to acquire our partnership without first negotiating the acquisition with our general partner. Consequently, it is unlikely the trading price of our common units will ever reflect a takeover premium.

Our general partner's discretion in determining the level of our cash reserves may adversely affect our ability to make cash distributions to our unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that it determines in its reasonable discretion to be necessary to fund our future operating expenditures. In addition, our partnership agreement permits our general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party, or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to our unitholders.

Unitholders may not have limited liability if a court finds that we have not complied with applicable statutes or that unitholder action constitutes control of our business.

The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some states. The holder of one of our common units could be held liable in some circumstances for our obligations to the same extent as a general partner if a court were to determine that:

- we had been conducting business in any state without compliance with the applicable limited partnership statute; or
- the right or the exercise of the right by our unitholders as a group to remove or replace our general partner, to approve some amendments to our partnership agreement, or to take other action under our partnership agreement constituted participation in the "control" of our business.

Our general partner generally has unlimited liability for our obligations, such as our debts and environmental liabilities, except for our contractual obligations that are expressly made without recourse to our general partner. In addition, under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of nine years from the date of the distribution.

Our partnership agreement contains provisions that reduce the remedies available to unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that would otherwise constitute breaches of our general partner's fiduciary duties. For example, our partnership agreement:

- permits our general partner to make a number of decisions in its "sole discretion." This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;
- provides that our general partner is entitled to make other decisions in its "reasonable discretion," which may reduce the obligations to which our general partner would otherwise be held;
- generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be "fair and reasonable" to us and that, in determining whether a transaction or resolution is "fair and reasonable," our general partner may consider the interests of all parties involved, including its own; and
- provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our general partner and those other persons acted in good faith.

Unitholders are treated as having consented to the various actions contemplated in our partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary duties under applicable state law.

We may issue additional common units without unitholder approval, which would dilute unitholder ownership interests.

Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without unitholder approval, in a number of circumstances such as:

- the issuance of common units in additional public offerings or in connection with acquisitions that increase cash flow from operations on a pro forma, per unit basis;
- the conversion of subordinated units into common units;
- the conversion of units of equal rank with the common units into common units under some circumstances; or
-

the conversion of our general partner's general partner interest in us and its incentive distribution rights into common units as a result of the withdrawal of our general partner.

We may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Our partnership agreement does not give our unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time.

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The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on a per unit basis may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the relative voting strength of each previously outstanding unit will diminish;
- the market price of the common units may decline; and
- the ratio of taxable income to distributions may increase.

The control of our general partner may be transferred to a third party and that party could replace our current management team, without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in our partnership agreement on the ability of the owner of our general partner to transfer its ownership interest in our general partner to a third party. A new owner of our general partner could replace the directors and officers of our general partner with its own designees and control the decisions taken by our general partner.

Our general partner has a limited call right that may require unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than the then-current market price. As a result, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. Unitholders may also incur a tax liability upon a sale of their units. No provision in our partnership agreement, or in any other agreement we have with our general partner or Martin Resource Management, prohibits our general partner or its affiliates from acquiring more than 80% of our common units. For additional information about this call right and unitholders' potential tax liability, please see "Risk Factors - Tax Risks - Tax gain or loss on the disposition of our common units could be different than expected."

Our common units have a limited trading volume compared to other publicly traded securities.

Our common units are quoted on the NASDAQ under the symbol "MMLP." However, daily trading volumes for our common units are, and may continue to be, relatively small compared to many other securities quoted on the NASDAQ. The price of our common units may, therefore, be volatile.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our unit price.

In order to comply with Section 404 of the Sarbanes-Oxley Act, we periodically document and test our internal control procedures. Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal controls over financial reporting addressing these assessments. During the course of our testing we may identify deficiencies, which we may not be able to address in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on the price of our common units.

Risks Relating to Our Relationship with Martin Resource Management

Cash reimbursements due to Martin Resource Management may be substantial and will reduce our cash available for distribution to our unitholders.

Under our Omnibus Agreement with Martin Resource Management, Martin Resource Management provides us with corporate staff and support services on behalf of our general partner that are substantially identical in nature and quality to the services it conducted for our business prior to our formation. The Omnibus Agreement requires us to reimburse Martin Resource Management for the costs and expenses it incurs in rendering these services, including an overhead allocation to us of Martin Resource Management's indirect general and administrative expenses from its corporate allocation pool. These payments may be substantial. Payments to Martin Resource Management will reduce the amount of available cash for distribution to our unitholders.

Martin Resource Management has conflicts of interest and limited fiduciary responsibilities, which may permit it to favor its own interests to the detriment of our unitholders.

As of December 31, 2018, Martin Resource Management owned 15.7% of our total outstanding common limited partner units and a 51% voting interest in Holdings, the sole member of MMGP. MMGP owns a 2% general partnership interest in us and all of our incentive distribution rights. Conflicts of interest may arise between Martin Resource Management and our general partner, on the one hand, and our unitholders, on the other hand. As a result of these conflicts, our general partner may favor its own interests and the interests of Martin Resource Management over the interests of our unitholders. Potential conflicts of interest between us, Martin Resource Management and our general partner could occur in many of our day-to-day operations including, among others, the following situations:

- Officers of Martin Resource Management who provide services to us also devote significant time to the businesses of Martin Resource Management and are compensated by Martin Resource Management for that time;

- Neither our partnership agreement nor any other agreement requires Martin Resource Management to pursue a business strategy that favors us or utilizes our assets or services. Martin Resource Management's directors and officers have a fiduciary duty to make these decisions in the best interests of the shareholders of Martin Resource Management without regard to the best interests of the unitholders;

- Martin Resource Management may engage in limited competition with us;

- Our general partner is allowed to take into account the interests of parties other than us, such as Martin Resource Management, in resolving conflicts of interest, which has the effect of reducing its fiduciary duty to our unitholders;

- Under our partnership agreement, our general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to our unitholders for actions that, without the limitations and reductions, might constitute breaches of fiduciary duty. As a result of purchasing units, our unitholders will be treated as having consented to some actions and conflicts of interest that, without such consent, might otherwise constitute a breach of fiduciary or other duties under applicable state law;

- Our general partner determines which costs incurred by Martin Resource Management are reimbursable by us;

- Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or from entering into additional contractual arrangements with any of these entities on our behalf;

- Our general partner controls the enforcement of obligations owed to us by Martin Resource Management;

- Our general partner decides whether to retain separate counsel, accountants or others to perform services for us;
- The audit committee of our general partner retains our independent auditors;

- In some instances, our general partner may cause us to borrow funds to permit us to pay cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions; and

- Our general partner has broad discretion to establish financial reserves for the proper conduct of our business. These reserves also will affect the amount of cash available for distribution.

Martin Resource Management and its affiliates may engage in limited competition with us.

Martin Resource Management and its affiliates may engage in limited competition with us. For a discussion of the non-competition provisions of the Omnibus Agreement, please see "Item 13. Certain Relationships and Related Transactions, and Director Independence." If Martin Resource Management does engage in competition with us, we may lose customers or business opportunities, which could have an adverse impact on our results of operations, cash flow and ability to make distributions to our unitholder allocations.

If Martin Resource Management were ever to file for bankruptcy or otherwise default on its obligations under its credit facility, amounts we owe under our credit facility may become immediately due and payable and our results of operations could be adversely affected.

If Martin Resource Management were ever to commence or consent to the commencement of a bankruptcy proceeding or otherwise default on its obligations under its credit facility, its lenders could foreclose on its pledge of the interests in our general partner and take control of our general partner. If Martin Resources Management no longer controls our general partner, the lenders under our credit facility may declare all amounts outstanding thereunder immediately due and payable. In addition, either a judgment against Martin Resource Management or a bankruptcy filing by or against Martin Resource Management could independently result in an event of default under our credit facility if it could reasonably be expected to have a material adverse effect on us. If our lenders do declare us in default and accelerate repayment, we may be required to refinance our debt on unfavorable terms, which could negatively impact our results of operations and our ability to make distributions to our unitholders. A bankruptcy filing by or against Martin Resource Management could also result in the termination or material breach of some or all of the various commercial contracts between us and Martin Resource Management, which could have a material adverse impact on our results of operations, cash flow and ability to make distributions to our unitholders.

Tax Risks

The U.S. Internal Revenue Service ("IRS") could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to unitholders.

The anticipated after-tax economic benefit of an investment in us depends largely on our classification as a partnership for federal income tax purposes. We have not requested a ruling from the IRS on this matter.

Despite the fact that we are organized as a limited partnership under Delaware law, it is possible in certain circumstances for a partnership such as ours to be treated as a corporation for federal income tax purposes. In order for us to be classified as a partnership for U.S. federal income tax purposes, more than 90% of our gross income each year must be "qualifying income" under Section 7704 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). "Qualifying income" includes income and gains derived from the exploration, development, mining or production, processing, refining, transportation, or marketing of minerals or natural resources, including crude oil, natural gas and products thereof. Other types of qualifying income include interest (other than from a financial business), dividends, gains from the sale of real property and gains from the sale or other disposition of capital assets held for the production of income that otherwise constitutes qualifying income.

Although we intend to meet this gross income requirement, we may not find it possible, regardless of our efforts, to meet this gross income requirement or may inadvertently fail to meet this gross income requirement. If we do not meet this gross income requirement for any taxable year and the IRS does not determine that such failure was inadvertent, we would be treated as a corporation for such taxable year and each taxable year thereafter.

If we were treated as a corporation for federal income tax purposes, we would owe federal income tax on our income at the corporate tax rate, which is currently a maximum of 21%, and would likely owe state income tax at varying rates. Distributions would generally be taxed again to unitholders as corporate distributions and no income, gains, losses, or deductions would flow through to unitholders. Because a tax would be imposed upon us as an entity, cash available for distribution to unitholders would be reduced. Treatment of us as a corporation would result in a reduction in the anticipated cash flow and after-tax return to unitholders and therefore would likely result in a reduction in the value of the common units.

Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution amount and the target distribution amount will be adjusted to reflect the impact of that law on us.

The tax treatment of publicly traded partnerships or an investment in our units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present U.S. federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units, may be modified by administrative, legislative or judicial interpretation at any time.

At the federal level, members of Congress and the President of the United States have periodically considered substantive changes to the existing U.S. tax laws that would have affected certain publicly traded partnerships, including the elimination of partnership tax treatment for publicly traded partnerships. At the state level, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, we are required to pay a Texas margin tax at a maximum effective rate of 0.525% of our gross income apportioned to Texas in the prior year. Imposition of any such tax on us by any other state will reduce the cash available for distribution to our unitholders.

Any modification to the tax laws and interpretations thereof may or may not be applied retroactively and could make it more difficult or impossible to meet the exception pursuant to which we are treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our business activities, affect the tax considerations of an investment in us, change the character or treatment of portions of our income and adversely affect an investment in our common units. We are unable to predict whether any of these changes or other proposals will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

On January 24, 2017, the U.S. Department of the Treasury issued final regulations (the “Final Regulations”) regarding qualifying income under Section 7704(d)(1)(E) of the Code which relates to the qualifying income exception upon which we rely for partnership tax treatment. The Final Regulations apply to income earned in a taxable year beginning on or after January 19, 2017. The Final Regulations include “reserved” paragraphs for fertilizer and hedging, which the U.S. Department of the Treasury plans to address in future proposed and final Treasury regulations (“Treasury regulations”). The Final Regulations provide for a ten year transition period during which certain taxpayers that either obtained a favorable private letter ruling or treated income under a reasonable interpretation of the statute or prior proposed regulations as qualifying income may continue to treat such income as qualifying income. We have obtained favorable private letter rulings from the IRS in the past as to what constitutes “qualifying income” within the meaning of Section 7704(d)(1)(E) of the Code and we expect to rely upon these private letter rulings for purposes of the ten year transition rule contained in the Final Regulations. With respect to some of these private letter rulings, the income that we derived from certain affected activities will be treated as qualifying income only until the end of the ten year transition period. Thus, at this time and through the transition period, we believe that the Final Regulations will not significantly impact the amount of our gross income that we are able to treat as qualifying income.

The effects of the budget reconciliation act commonly referred to as the Tax Cuts and Jobs Act (hereinafter, “Tax Cuts and Jobs Act”) could have an adverse effect on the timing and amount of income allocations to our unitholders.

On December 22, 2017, the President signed into law Public Law No. 115-97, a comprehensive tax reform bill commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) that makes significant changes to the U.S. Internal Revenue Code. Among other changes, the Tax Act includes a reduction in the corporate and individual tax rates, a new deduction on certain pass-through income, a repeal of the partnership technical termination rule, and new limitations on certain deductions and credits, including interest expense deductions. The Tax Act had no material impact on our unitholder allocations for 2018.

A successful IRS contest of the federal income tax positions we take could adversely affect the market for our common units and the costs of any contest will be borne by our unitholders, debt security holders and our general partner.

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the positions we take and our counsel's conclusions. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take. A court may not agree with some or all our counsel's conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the prices at which they trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by all of our unitholders, debt security holders and our general partner.

If the IRS makes audit adjustments to our income tax returns for tax years beginning after December 31, 2017, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us, in which case our cash available for distribution to our unitholders might be substantially reduced.

Pursuant to the Bipartisan Budget Act of 2015 and recently issued proposed Treasury Regulations (the “Proposed Partnership Audit Regulations”), for taxable years beginning after December 31, 2017, if the IRS makes audit adjustments to our income tax returns, it may assess and collect any taxes (including any applicable penalties and interest) resulting from such audit adjustment directly from us. Similarly, for such taxable years, if the IRS makes audit adjustments to income tax returns filed by an entity in which we are a member or partner, the IRS may assess and collect any taxes (including penalties and interest) resulting from such audit adjustment directly from such entity. Generally, we expect to elect to have our unitholders take such audit adjustment into account in accordance with their interests in us during the tax year under audit, but there can be no assurance that such election will be effective in all circumstances. If we are unable to have our unitholders take such audit adjustment into account in accordance with their interests in us during the tax year under audit, our current unitholders may bear some or all of the tax liability resulting from such audit adjustment, even if such unitholders did not own units in us during the tax year under audit. If, as a result of any such audit adjustment, we are required to make payments of taxes, penalties and interest as a result of audit adjustments cash available for distribution to our unitholders may be substantially reduced. These rules are not applicable to us for tax years beginning on or prior to December 31, 2017.

Additionally, pursuant to the Bipartisan Budget Act of 2015 and the Proposed Partnership Audit Regulations, we are no longer required to designate a “tax matters partner.” Instead, for taxable years beginning after December 31, 2017, we are required to designate a partner, or other person, with a substantial presence in the United States as the partnership representative (“Partnership Representative”). The Partnership Representative will have the sole authority to act on our behalf for purposes of, among other things, U.S. federal income tax audits and judicial review of administrative adjustments by the IRS. If we do not make such a designation, the IRS can select any person as the Partnership Representative. Any actions taken by us or by the Partnership Representative on our behalf with respect to, among other things, U.S. federal income tax audits and judicial review of administrative adjustments by the IRS, will be binding on us and all of the unitholders. We anticipate that our current tax matters partner will be designated the Partnership Representative.

Unitholders may be required to pay taxes on income from us, including their share of income from the cancellation of debt, even if they do not receive any cash distributions from us.

Unitholders may be required to pay federal income taxes and, in some cases, state, local and foreign income taxes on their share of our taxable income even if they receive no cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even the tax liability that results from the taxation of their share of our taxable income.

We may engage in transactions to delever the partnership and manage our liquidity that may result in income to our unitholders without a corresponding cash distribution. For example, if we sell assets and use the proceeds to repay existing debt or fund capital expenditures, you may be allocated taxable income and gain resulting from the sale without receiving a cash distribution. Further, taking advantage of opportunities to reduce our existing debt, such as debt exchanges, debt repurchases, or modifications of our existing debt could result in “cancellation of indebtedness income” (also referred to as “COD income”) being allocated to our unitholders as taxable income. Unitholders may be allocated COD income, and income tax liabilities arising therefrom may exceed cash distributions or the value of the units. The ultimate effect of any such allocations will depend on the unitholder's individual tax position with respect to its units. Unitholders are encouraged to consult their tax advisor with respect to the consequences to them of COD income.

Tax gain or loss on the disposition of our common units could be different than expected.

If our unitholders sell their common units, they will recognize gain or loss equal to the difference between the amount realized and their tax basis in those common units. Prior distributions in excess of the total net taxable income unitholders were allocated for a common unit, which decreased unitholder tax basis in that common unit, will, in effect, become taxable income to our unitholders if the common unit is sold at a price greater than their tax basis in that common unit, even if the price they receive is less than their original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to our unitholders. Should the IRS successfully contest some positions we take, our unitholders could recognize more gain on the sale of units than would be the case under those positions without the benefit of decreased income in prior years. In addition, if our unitholders sell their units, they may incur a tax liability in excess of the amount of cash they receive from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as employee benefit plans, individual retirement accounts (known as IRAs), Keogh plans and other retirement plans, regulated investment companies, real estate investment trusts, mutual funds and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S persons will be required to file U.S. federal income tax returns and pay tax on their share of our taxable income. Tax-exempt entities, non-U.S. persons and other unique investors should consult their tax advisor regarding their investment in our common units.

We treat a purchaser of our common units as having the same tax benefits without regard to the seller's identity. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we have adopted depreciation positions that may not conform to all aspects of the Treasury regulations. Any position we take that is inconsistent with applicable Treasury regulations may have to be disclosed on our federal income tax return. This disclosure increases the likelihood that the IRS will challenge our positions and propose adjustments to some or all of our unitholders. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to our unitholders' tax returns.

Unitholders may be subject to state, local and foreign taxes and return filing requirements as a result of investing in our common units.

In addition to federal income taxes, unitholders may be subject to other taxes, such as state, local and foreign income taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. Unitholders may be required to file state, local and foreign income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. We own property and/or conduct business in Alabama, Arizona, Arkansas, California, Florida, Georgia, Illinois, Indiana, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, and West Virginia. We may do business or own property in other states or foreign countries in the future. It is the unitholder's responsibility to file all federal, state, local and foreign tax returns. Our counsel has not rendered an opinion on the state, local or foreign tax consequences of an investment in our common units.

There are limits on the deductibility of our losses that may adversely affect our unitholders.

There are a number of limitations that may prevent unitholders from using their allocable share of our losses as a deduction against unrelated income. In cases when our unitholders are subject to the passive loss rules (generally, individuals and closely-held corporations), any losses generated by us will only be available to offset our future income and cannot be used to offset income from other activities, including other passive activities or investments. Unused losses may be deducted when the unitholder disposes of its entire investment in us in a fully taxable transaction with an unrelated party. A unitholder's share of our net passive income may be offset by unused losses from us carried over from prior years but not by losses from other passive activities, including losses from other publicly traded partnerships. Other limitations that may further restrict the deductibility of our losses by a unitholder include the at-risk rules, the excess loss limitation rules for non-corporate unitholders that applies until January 1, 2026, and the prohibition against loss allocations in excess of the unitholder's tax basis in its units.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. Treasury regulations permit publicly traded partnerships to use a monthly simplifying convention that is similar to ours, but they do not specifically authorize all aspects of the proration method we have adopted. Therefore, the use of our proration method may not be permitted under existing Treasury regulations, and, accordingly, our counsel is unable to opine as to the validity of such method. If the IRS were to challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders.

A unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition.

Because a unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of the loaned units, he may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Our counsel has not rendered an opinion regarding the treatment of a unitholder where common units are loaned to a short seller to cover a short sale of common units; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

A description of our properties is contained in "Item 1. Business" and is incorporated herein by reference.

We believe we have satisfactory title to our assets. Some of the easements, rights-of-way, permits, licenses or similar documents relating to the use of the properties that have been transferred to us in connection with our initial public offering and the assets we acquired in our acquisitions, required the consent of third parties, which in some cases is a governmental entity. We believe we have obtained sufficient third-party consents, permits and authorizations for the transfer of assets necessary for us to operate our business in all material respects. With respect to any third-party consents, permits or authorizations that have not been obtained, we believe the failure to obtain these consents, permits or authorizations will not have a material adverse effect on the operation of our business. Title to our property may be subject to encumbrances, including liens in favor of our secured lender. We believe none of these encumbrances materially detract from the value of our properties or our interest in these properties or materially interfere with their use in the operation of our business.

Item 3. Legal Proceedings

From time to time, we are subject to certain legal proceedings, claims and disputes that arise in the ordinary course of our business. Although we cannot predict the outcomes of these legal proceedings, we do not believe these actions, in the aggregate, will have a material adverse impact on our financial position, results of operations or liquidity. A description of our legal proceedings is included in "Item 8. Financial Statements and Supplementary Data, Note 22. Commitments and Contingencies", and is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Our Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders

Our common units are traded on the NASDAQ under the symbol "MMLP." As of January 25, 2019, there were approximately 279 holders of record and approximately 20,329 beneficial owners of our common units.

Cash Distribution Policy

Within 45 days after the end of each quarter, we distribute all of our available cash, as defined in our partnership agreement, to unitholders of record on the applicable record date. Our general partner has broad discretion to establish cash reserves that it determines are necessary or appropriate to properly conduct our business. These can include cash reserves for future capital and maintenance expenditures, reserves to stabilize distributions of cash to the unitholders and our general partner, reserves to reduce debt, or, as necessary, reserves to comply with the terms of any of our agreements or obligations. Our distributions are effectively made 98% to unitholders and 2% to our general partner, subject to the payment of incentive distributions to our general partner if certain target cash distribution levels to common unitholders are achieved. Distributions to our general partner increase to 15%, 25% and 50% based on incremental distribution thresholds as set forth in our partnership agreement.

Our ability to distribute available cash is contractually restricted by the terms of our credit facility. Our credit facility contains covenants requiring us to maintain certain financial ratios. We are prohibited from making any distributions to unitholders if the distribution would cause a default or an event of default, or a default or an event of default exists, under our credit facility. Please read "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Description of Our Credit Facility."

Quarterly Distribution. On January 17, 2019, we declared a quarterly cash distribution of $0.50 per common unit for the fourth quarter of 2018, or $2.00 per common unit on an annualized basis, which will be paid on February 14, 2019 to unitholders of record as of February 7, 2019.

Item 6. Selected Financial Data

The following table sets forth selected financial data and other operating data of the Partnership for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 and is derived from the audited consolidated financial statements of the Partnership.

The following selected financial data are qualified by reference to and should be read in conjunction with the Partnership's Consolidated Financial Statements and Notes thereto and "Management’s Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this document.

	2018	2017	2016	2015	2014
	(Dollars in thousands, except per unit amounts)				
Revenues	$972,655	$946,116	$827,391	$1,036,844	$1,642,141
Income (loss) from continuing operations	(7,595)	13,007	27,003	32,088	(11,590)
Income (loss) from discontinued operations, net of tax	51,700	4,128	4,649	10,169	(115)
Net income (loss)	$44,105	$17,135	$31,652	$42,257	$(11,705)
Net income (loss) attributable to limited partners	$43,195	$16,750	$23,143	$21,902	$(15,176)
Net income (loss) per limited partner unit – continuing operations	(0.19)	0.33	0.55	0.47	(0.48)
Net income (loss) per limited partner unit – discontinued operations	1.30	0.11	0.10	0.15	(0.01)
Net income (loss) per limited partner unit	$1.11	$0.44	$0.65	$0.62	$(0.49)
Total assets	$1,033,398	$1,253,498	$1,246,363	$1,380,473	$1,553,919
Long-term debt	656,459	812,632	808,107	865,003	902,005
Cash dividends per common unit (in dollars)	2.00	2.00	2.94	3.25	3.18

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

- Terminalling and storage services for petroleum products and by-products, including the refining of naphthenic crude oil and the blending and packaging of finished lubricants;
- Natural gas liquids transportation and distribution services and natural gas storage;
- Sulfur and sulfur-based products gathering, processing, marketing, manufacturing and distribution; and
- Marine transportation services for petroleum products and by-products.

The petroleum products and by-products we collect, transport, store and market are produced primarily by major and independent oil and gas companies who often turn to third parties, such as us, for the transportation and disposition of these products. In addition to these major and independent oil and gas companies, our primary customers include independent refiners, large chemical companies, fertilizer manufacturers and other wholesale purchasers of these products. We operate primarily in the U.S. Gulf Coast region. This region is a major hub for petroleum refining, natural gas gathering and processing, and support services for the exploration and production industry.

We were formed in 2002 by Martin Resource Management, a privately-held company whose initial predecessor was incorporated in 1951 as a supplier of products and services to drilling rig contractors. Since then, Martin Resource Management has expanded its operations through acquisitions and internal expansion initiatives as its management identified and capitalized on the needs of producers and purchasers of petroleum products and by-products and other bulk liquids. Martin Resource Management is an important supplier and customer of ours. As of December 31, 2018, Martin Resource Management owned 15.7% of our total outstanding common limited partner units. Furthermore, Martin Resource Management controls Martin Midstream GP LLC ("MMGP"), our general partner, by virtue of its 51% voting interest in MMGP Holdings, LLC ("Holdings"), the sole member of MMGP. MMGP owns a 2% general partner interest in us and all of our incentive distribution rights. Martin Resource Management directs our business operations through its ownership interests in and control of our general partner.

We entered into an omnibus agreement dated November 1, 2002, with Martin Resource Management (the "Omnibus Agreement") that governs, among other things, potential competition and indemnification obligations among the parties to the agreement, related party transactions, the provision of general administration and support services by Martin Resource Management and our use of certain of Martin Resource Management’s trade names and trademarks. Under the terms of the Omnibus Agreement, the employees of Martin Resource Management are responsible for conducting our business and operating our assets. The Omnibus Agreement was amended on November 25, 2009, to include processing crude oil into finished products including naphthenic lubricants, distillates, asphalt and other intermediate cuts. The Omnibus Agreement was amended further on October 1, 2012, to permit the Partnership to provide certain lubricant packaging products and services to Martin Resource Management.

Martin Resource Management has operated our business since 2002. Martin Resource Management began operating our natural gas services business in the 1950s and our sulfur business in the 1960s. It began our marine transportation business in the late 1980s. It entered into our fertilizer and terminalling and storage businesses in the early 1990s. In recent years, Martin Resource Management has increased the size of our asset base through expansions and strategic acquisitions.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on the historical consolidated financial statements included elsewhere herein. We prepared these financial statements in conformity with United States generally accepted accounting principles ("U.S. GAAP" or "GAAP"). The preparation of these financial statements required us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We based our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. We routinely evaluate these estimates, utilizing historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Our results may differ from these estimates, and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. Changes in these estimates could materially affect our financial position, results of operations or cash flows. You should also read Note 2, "Significant Accounting Policies" in Notes to Consolidated Financial Statements. The following table evaluates the potential impact of estimates utilized during the periods ended December 31, 2018 and 2017:

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Estimates and Assumptions
Impairment of Long-Lived Assets We periodically evaluate whether the carrying value of long-lived assets has been impaired when circumstances indicate the carrying value of the assets may not be recoverable. These evaluations are based on undiscounted cash flow projections over the remaining useful life of the asset. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows. Any impairment loss is measured as the excess of the asset's carrying value over its fair value.	Our impairment analyses require management to use judgment in estimating future cash flows and useful lives, as well as assessing the probability of different outcomes.	Applying this impairment review methodology, no impairment of long-lived assets was recorded during the year ended December 31, 2018. In 2017, we recorded an impairment charge of $1.6 million in our Marine Transportation segment and $0.6 million in our Terminalling and Storage segment.
Asset Retirement Obligations Asset retirement obligations ("AROs") associated with a contractual or regulatory remediation requirement are recorded at fair value in the period in which the obligation can be reasonably estimated and the related asset is depreciated over its useful life or contractual term. The liability is determined using a credit-adjusted risk-free interest rate and is accreted over time until the obligation is settled.	Determining the fair value of AROs requires management judgment to evaluate required remediation activities, estimate the cost of those activities and determine the appropriate interest rate.	If actual results differ from judgments and assumptions used in valuing an ARO, we may experience significant changes in ARO balances. The establishment of an ARO has no initial impact on earnings.

Our Relationship with Martin Resource Management

Martin Resource Management directs our business operations through its ownership and control of our general partner and under the Omnibus Agreement. In addition to the direct expenses, under the Omnibus Agreement, we are required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. For the years ended December 31, 2018, 2017 and 2016, the conflicts committee of our general partner ("Conflicts Committee") approved reimbursement amounts of $16.4 million, $16.4 million and $13.0 million, respectively, reflecting our allocable share of such expenses. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually.

We are required to reimburse Martin Resource Management for all direct expenses it incurs or payments it makes on our behalf or in connection with the operation of our business. Martin Resource Management also licenses certain of its trademarks and trade names to us under the Omnibus Agreement.

We are both an important supplier to and customer of Martin Resource Management. Among other things, we provide marine transportation and terminalling and storage services to Martin Resource Management. We purchase land transportation services and marine fuel from Martin Resource Management (the Partnership acquired MTI effective January 1, 2019). All of these services and goods are purchased and sold pursuant to the terms of a number of agreements between us and Martin Resource Management.

For a more comprehensive discussion concerning the Omnibus Agreement and the other agreements that we have entered into with Martin Resource Management, please see "Item 13. Certain Relationships and Related Transactions, and Director Independence."

How We Evaluate Our Operations

Our management uses a variety of financial and operational measurements other than our financial statements prepared in accordance with U.S. GAAP to analyze our performance. These include: (1) net income before interest expense, income tax expense, and depreciation and amortization ("EBITDA"), (2) adjusted EBITDA and (3) distributable cash flow. Our management views these measures as important performance measures of core profitability for our operations and the ability to generate and distribute cash flow, and as key components of our internal financial reporting. We believe investors benefit from having access to the same financial measures that our management uses.

EBITDA and Adjusted EBITDA. Certain items excluded from EBITDA and adjusted EBITDA are significant components in understanding and assessing an entity's financial performance, such as cost of capital and historic costs of depreciable assets. We have included information concerning EBITDA and adjusted EBITDA because they provide investors and management with additional information to better understand the following: financial performance of our assets without regard to financing methods, capital structure or historical cost basis; our operating performance and return on capital as compared to those of other similarly situated entities; and the viability of acquisitions and capital expenditure projects. Our method of computing adjusted EBITDA may not be the same method used to compute similar measures reported by other entities. The economic substance behind our use of adjusted EBITDA is to measure the ability of our assets to generate cash sufficient to pay interest costs, support our indebtedness and make distributions to our unit holders.

Distributable Cash Flow. Distributable cash flow is a significant performance measure used by our management and by external users of our financial statements, such as investors, commercial banks and research analysts, to compare basic cash flows generated by us to the cash distributions we expect to pay our unitholders. Distributable cash flow is also an important financial measure for our unitholders since it serves as an indicator of our success in providing a cash return on investment. Specifically, this financial measure indicates to investors whether or not we are generating cash flow at a level that can sustain or support an increase in our quarterly distribution rates. Distributable cash flow is also a quantitative standard used throughout the investment community with respect to publicly-traded partnerships because the value of a unit of such an entity is generally determined by the unit's yield, which in turn is based on the amount of cash distributions the entity pays to a unitholder.

EBITDA, adjusted EBITDA and distributable cash flow should not be considered alternatives to, or more meaningful than, net income, cash flows from operating activities, or any other measure presented in accordance with U.S. GAAP. Our method of computing these measures may not be the same method used to compute similar measures reported by other entities.

Non-GAAP Financial Measures

The following table reconciles the non-GAAP financial measurements used by management to our most directly comparable GAAP measures for the years ended December 31, 2018, 2017, and 2016, which represents EBITDA, Adjusted EBITDA and Distributable Cash Flow from continuing operations.

Reconciliation of EBITDA, Adjusted EBITDA, and Distributable Cash Flow

	Year Ended December 31,		
	2018	**2017**	**2016**
Net income	$44,105	$17,135	$31,652
Less: Income from discontinued operations, net of income taxes	(51,700)	(4,128)	(4,649)
Income (loss) from continuing operations	(7,595)	13,007	27,003
Adjustments:			
Interest expense	52,037	47,743	46,100
Income tax expense	369	352	726
Depreciation and amortization	76,866	85,195	92,132
EBITDA	121,677	146,297	165,961
Adjustments:			
(Gain) loss on sale of property, plant and equipment	379	(523)	(33,400)
Impairment of long-lived assets	—	2,225	26,953
Impairment of goodwill	—	—	4,145
Unrealized mark-to-market on commodity derivatives	(76)	(3,832)	4,579
Hurricane damage repair accrual	—	657	—
Asset retirement obligation revision	—	5,547	—
Unit-based compensation	1,224	650	904
Transaction costs associated with acquisitions	465	—	—
Adjusted EBITDA	123,669	151,021	169,142
Adjustments:			
Interest expense	(52,037)	(47,743)	(46,100)
Income tax expense	(369)	(352)	(726)
Amortization of deferred debt issuance costs	3,445	2,897	3,684
Amortization of debt premium	(306)	(306)	(306)
Non-cash mark-to-market on interest rate derivatives	—	—	(206)
Payments for plant turnaround costs	(1,893)	(1,583)	(2,061)
Maintenance capital expenditures	(21,505)	(18,080)	(17,163)
Distributable Cash Flow[1]	$51,004	$85,854	$106,264

[1] Excludes distributable cash flow from discontinued operations were $3,253, $5,214 and $7,435 for the years ended December 31, 2018, 2017 and 2016, respectively.

Results of Operations

The results of operations for the years ended December 31, 2018, 2017, and 2016 have been derived from our consolidated financial statements.

We evaluate segment performance on the basis of operating income, which is derived by subtracting cost of products sold, operating expenses, selling, general and administrative expenses, and depreciation and amortization expense from revenues.

Our consolidated results of operations are presented on a comparative basis below. There are certain items of income and expense which we do not allocate on a segment basis. These items, including equity in earnings (loss) of unconsolidated entities, interest expense, and indirect selling, general and administrative expenses, are discussed after the comparative discussion of our results within each segment.

The Natural Gas Services segment information below excludes the discontinued operations of the WTLPG partnership interests disposed of on July 31, 2018 for the years ended December 31, 2018, 2017 and 2016. See Item 8, Note 5.

The following table sets forth our operating revenues and operating income by segment for the years ended December 31, 2018, 2017, and 2016.

	Operating Revenues	Revenues Intersegment Eliminations	Operating Revenues after Eliminations	Operating Income (loss)	Operating Income Intersegment Eliminations	Operating Income (loss) after Eliminations
	(In thousands)					
Year Ended December 31, 2018:						
Terminalling and storage	$247,840	$ (6,226)	$ 241,614	$ 17,820	$ (4,095)	$ 13,725
Natural gas services	548,135	—	548,135	24,938	3,632	28,570
Sulfur services	132,536	—	132,536	17,216	(2,940)	14,276
Marine transportation	52,830	(2,460)	50,370	2,713	3,403	6,116
Indirect selling, general and administrative	—	—	—	(17,901)	—	(17,901)
Total	$981,341	$ (8,686)	$ 972,655	$ 44,786	$ —	$ 44,786
Year Ended December 31, 2017:						
Terminalling and storage	$236,169	$ (5,998)	$ 230,171	$ 3,305	$ (2,676)	$ 629
Natural gas services	532,908	(226)	532,682	49,377	2,472	51,849
Sulfur services	134,684	—	134,684	25,862	(2,657)	23,205
Marine transportation	51,915	(3,336)	48,579	(1,211)	2,861	1,650
Indirect selling, general and administrative	—	—	—	(17,332)	—	(17,332)
Total	$955,676	$ (9,560)	$ 946,116	$ 60,001	$ —	$ 60,001
Year Ended December 31, 2016:						
Terminalling and storage	$242,363	$ (5,653)	$ 236,710	$ 44,143	$ (3,483)	$ 40,660
Natural gas services	391,333	—	391,333	38,447	3,056	41,503
Sulfur services	141,058	—	141,058	26,815	(3,422)	23,393
Marine transportation	61,233	(2,943)	58,290	(19,888)	3,849	(16,039)
Indirect selling, general and administrative	—	—	—	(16,794)	—	(16,794)
Total	$835,987	$ (8,596)	$ 827,391	$ 72,723	$ —	$ 72,723

Terminalling and Storage Segment

Comparative Results of Operations for the Twelve Months Ended December 31, 2018 and 2017

	Year Ended December 31, 2018	2017	Variance	Percent Change
	(In thousands)			
Revenues:				
Services	$102,514	$105,703	$(3,189)	(3)%
Products	145,326	130,466	14,860	11%
Total revenues	247,840	236,169	11,671	5%
Cost of products sold	132,384	118,832	13,552	11%
Operating expenses	54,129	63,191	(9,062)	(14)%
Selling, general and administrative expenses	5,327	5,832	(505)	(9)%
Impairment of long-lived assets	—	600	(600)	(100)%
Depreciation and amortization	39,508	45,160	(5,652)	(13)%
	16,492	2,554	13,938	546%
Other operating income, net	1,328	751	577	77%
Operating income	$17,820	$3,305	$14,515	439%
Lubricant sales volumes (gallons)	24,016	21,897	2,119	10%
Shore-based throughput volumes (guaranteed minimum) (gallons)	80,000	144,998	(64,998)	(45)%
Smackover refinery throughput volumes (guaranteed minimum BBL per day)	6,500	6,500	—	—%

Services revenues. Services revenue decreased $3.2 million, of which $7.6 million was primarily a result of decreased throughput fees at our shore-based terminals, offset by a $4.1 million increase at our specialty terminals primarily as a result of the Hondo asphalt plant being put into service on July 1, 2017.

Products revenues. A 28% increase in sales volumes combined with a 4% increase in average sales price at our blending and packaging facilities resulted in a $20.3 million increase to products revenues. Offsetting this increase was a 9% decrease in sales volumes offset by a 1% increase in average sales price at our shore based terminals resulting in a $5.4 million decrease in products revenues.

Cost of products sold. A 28% increase in sales volumes combined with a 10% increase in average cost per gallon at our blending and packaging facilities resulted in a $19.0 million increase in cost of products sold. Offsetting this increase was a 9% decrease in sales volume offset by a 2% increase in average cost per gallon at our shore based terminals resulting in a $5.5 million decrease in cost of products sold.

Operating expenses. Operating expenses at our shore-based terminals decreased by $8.0 million primarily due to the 2017 period including an increase in the accrual related to asset retirement obligations of $6.3 million. Additionally, lease expense decreased $0.7 million as a result of closing several facilities. Operating expenses at our specialty terminals decreased $1.8 million, primarily due to the 2017 period including $2.5 million in hurricane expenses offset by an increase of $1.0 million in expenses at our Hondo facility which was placed in service in July of 2017. Offsetting this decrease was a $0.8 million increase at our Smackover refinery due to an increase in utilities of $0.4 million, $0.2 million in repairs and maintenance, and $0.2 million in professional fees.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased primarily as a result of decreased legal expenses.

Impairment of long-lived assets. This represents the loss on impairment of non-core operating assets in 2017.

Depreciation and amortization. The decrease in depreciation and amortization is due to the disposition of assets at several closed shore-based facilities, offset by recent capital expenditures.

Other operating income, net. Other operating income, net represents gains from the disposition of property, plant and equipment.

Comparative Results of Operations for the Twelve Months Ended December 31, 2017 and 2016

	Year Ended December 31, 2017	2016	Variance	Percent Change
	(In thousands)			
Revenues:				
Services	$105,703	$128,783	$(23,080)	(18)%
Products	130,466	113,580	16,886	15%
Total revenues	236,169	242,363	(6,194)	(3)%
Cost of products sold	118,832	102,883	15,949	16%
Operating expenses	63,191	65,292	(2,101)	(3)%
Selling, general and administrative expenses	5,832	4,677	1,155	25%
Impairment of long-lived assets	600	15,252	(14,652)	(96)%
Depreciation and amortization	45,160	45,484	(324)	(1)%
	2,554	8,775	(6,221)	(71)%
Other operating income, net	751	35,368	(34,617)	(98)%
Operating income	$3,305	$44,143	$(40,838)	(93)%
Lubricant sales volumes (gallons)	21,897	17,995	3,902	22%
Shore-based throughput volumes (guaranteed minimum) (gallons)	144,998	200,000	(55,002)	(28)%
Smackover refinery throughput volumes (guaranteed minimum BBL per day)	6,500	6,500	—	—%
Corpus Christi crude terminal (barrels per day)	—	66,167	(66,167)	(100)%

*Services revenues. S*ervices revenue decreased primarily as a result of decreased throughput volumes and pass-through revenues at our Corpus Christi crude terminal, which was sold on December 21, 2016.

Products revenues. An 11% increase in sales volumes offset by a 1% decrease in average sales price at our blending and packaging facilities resulted in a $5.9 million increase to products revenues. Products revenues at our shore-based terminals increased $11.0 million resulting from an 18% increase in average sales price and a 1% increase in sales volume.

Cost of products sold. An 11% increase in sales volumes at our blending and packaging facilities resulted in a $4.9 million increase in cost of products sold. Average cost per gallon increased 2%, resulting in a $0.8 million increase in cost of products sold. Cost of products sold at our shore-based terminals increased $10.1 million resulting from an 19% increase in average cost per gallon and a 1% increase in sales volumes.

Operating expenses. Operating expenses at our specialty terminals decreased $4.8 million, primarily as a result of the disposition of the Corpus Christi crude terminalling assets in the fourth quarter 2016 of $7.6 million, offset by hurricane expenses of $2.5 million. Operating expenses at our shore-based terminals increased by $3.2 million, primarily due to a $5.5 million increase in the accrual related to asset retirement obligations at leased terminal facilities and hurricane expenses of $0.3 million, offset by $2.7 million decrease associated with closed facilities.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to increased legal fees of $0.6 million and compensation expense of $0.5 million.

Impairment of long-lived assets. This represents the loss on impairment of non-core operating assets.

Depreciation and amortization. The decrease in depreciation and amortization is due to the impact of the disposition of assets and assets being fully depreciated, offset by capital expenditures.

Other operating income, net. Other operating income, net represents gains and losses from the disposition of property, plant and equipment. The 2016 period includes the gain on the disposition of the Corpus Christi crude terminalling assets of $37.3 million.

Natural Gas Services Segment

Comparative Results of Operations for the Twelve Months Ended December 31, 2018 and 2017

	Year Ended December 31,		Variance	Percent Change
	2018	2017		
	(In thousands)			
Revenues:				
Services	$52,109	$58,817	$(6,708)	(11)%
Products	496,026	474,091	21,935	5%
Total revenues	548,135	532,908	15,227	3%
Cost of products sold	467,571	425,073	42,498	10%
Operating expenses	24,065	22,347	1,718	8%
Selling, general and administrative expenses	9,063	11,106	(2,043)	(18)%
Depreciation and amortization	21,283	24,916	(3,633)	(15)%
	26,153	49,466	(23,313)	(47)%
Other operating loss, net	(1,215)	(89)	(1,126)	(1,265)%
Operating income	$24,938	$49,377	$(24,439)	(49)%
NGLs Volumes (barrels)	10,223	10,487	(264)	(3)%

Services Revenues. The decrease in services revenue is primarily a result of lower firm storage re-contracting rates at our natural gas storage facilities.

Products Revenues. Our NGL average sales price per barrel increased $3.31, or 7%, resulting in an increase to products revenues of $34.7 million. The increase in average sales price per barrel was a result of an increase in market prices. Product sales volumes decreased 3%, decreasing revenues $12.8 million.

Cost of products sold. Our average cost per barrel increased $5.20, or 13%, increasing cost of products sold by $54.6 million. The increase in average cost per barrel was a result of an increase in market prices. The decrease in sales volume of 3% resulted in a $12.1 million decrease to cost of products sold. Our margins decreased $1.89 per barrel, or 40% during the period.

Operating expenses. Operating expenses increased $1.4 million at our natural gas storage facilities, primarily as a result of $0.6 million in increased utility expense, $0.5 million in insurance premiums, and $0.3 million in park and loan expense. Additionally, repairs and maintenance expense at our underground NGL storage facility increased $0.3 million.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased primarily as a result of decreased compensation expense.

Depreciation and amortization. Depreciation and amortization decreased primarily due to a $3.9 million decrease in amortization related to contracts acquired during the purchase of Cardinal Gas Storage Partners, LLC ("Cardinal"), offset by a $0.3 million increase in depreciation expense related to recent capital expenditures.

Other operating loss, net. Other operating loss, net represents losses from the disposition of property, plant and equipment.

Comparative Results of Operations for the Twelve Months Ended December 31, 2017 and 2016

	Year Ended December 31,		**Variance**	**Percent Change**
	2017	**2016**		
	(In thousands)			
Revenues:				
Services	$58,817	$61,133	$(2,316)	(4)%
Products	474,091	330,200	143,891	44%
Total revenues	532,908	391,333	141,575	36%
Cost of products sold	425,073	292,573	132,500	45%
Operating expenses	22,347	23,152	(805)	(3)%
Selling, general and administrative expenses	11,106	8,970	2,136	24%
Depreciation and amortization	24,916	28,081	(3,165)	(11)%
	49,466	38,557	10,909	28%
Other operating loss, net	(89)	(110)	21	19%
Operating income	$49,377	$38,447	$10,930	28%
NGLs Volumes (barrels)	10,487	9,532	955	10%

Services Revenues. The decrease in services revenue is primarily a result of decreased storage rates at our Arcadia gas storage facility.

Products Revenues. Our NGL average sales price per barrel increased $10.57, or 31%, resulting in an increase to products revenues of $100.7 million. The increase in average sales price per barrel was a result of an increase in market prices. Product sales volumes increased 10%, increasing revenues $43.2 million.

Cost of products sold. Our average cost per barrel increased $9.84, or 32%, increasing cost of products sold by $93.8 million. The increase in average cost per barrel was a result of an increase in market prices. The increase in sales volume of 10% resulted in a $38.7 million increase to cost of products sold. Our margins increased $0.73 per barrel, or 18% during the period.

Operating expenses. Operating expenses decreased $0.8 million due to $0.3 million of decreased maintenance expense at our NGL East Texas pipeline, decreased compensation expense of $0.3 million, and decreased repairs and maintenance at our underground NGL storage facility of $0.2 million.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily as a result of increased compensation expense.

Depreciation and amortization. Depreciation and amortization decreased primarily due to a $3.7 million decrease in amortization related to contracts acquired during the purchase of Cardinal Gas Storage Partners, LLC ("Cardinal"), offset by a $0.6 million increase in depreciation expense related to recent capital expenditures.

Other operating loss, net. Other operating loss, net represents losses from the disposition of property, plant and equipment.

Sulfur Services Segment

Comparative Results of Operations for the Twelve Months Ended December 31, 2018 and 2017

	Year Ended December 31,		Variance	Percent Change
	2018	2017		
	(In thousands)			
Revenues:				
Services	$11,148	$10,952	$196	2%
Products	121,388	123,732	(2,344)	(2)%
Total revenues	132,536	134,684	(2,148)	(2)%
Cost of products sold	90,780	82,760	8,020	10%
Operating expenses	11,618	13,783	(2,165)	(16)%
Selling, general and administrative expenses	4,326	4,136	190	5%
Depreciation and amortization	8,485	8,117	368	5%
	17,327	25,888	(8,561)	(33)%
Other operating loss, net	(111)	(26)	(85)	(327)%
Operating income	$17,216	$25,862	$(8,646)	(33)%
Sulfur (long tons)	688.0	807.0	(119.0)	(15)%
Fertilizer (long tons)	277.0	276.0	1.0	—%
Sulfur services volumes (long tons)	965.0	1,083.0	(118.0)	(11)%

Services Revenues. Services revenues increased as a result of a contractually prescribed index based fee adjustment.

Products Revenues. Products revenues decreased $14.8 million due to an 11% decrease in sales volumes, primarily related to a 15% decrease in sulfur volumes. Offsetting, products revenues increased $12.5 million as a result of a 10% rise in average sulfur services sales prices.

Cost of products sold. A 23% increase in prices impacted cost of products sold by $19.1 million, resulting from an increase in commodity prices. An 11% decrease in sales volumes resulted in an offsetting decrease in cost of products sold of $11.1 million. Margin per ton decreased $6.11, or 16%.

Operating expenses. Our operating expenses decreased primarily as a result of a $1.5 million reduction in compensation expense and $0.4 million in lower property taxes. Additionally, outside towing decreased $0.3 million, railcar leases decreased $0.3 million, and repairs and maintenance on marine vessels decreased $0.2 million. An offsetting increase of $0.5 million resulted from an increase in marine fuel and lube.

Selling, general and administrative expenses. Increased primarily as a result of increased compensation expense.

Depreciation and amortization. Depreciation expense increased $0.4 million due to capital projects being completed and placed in service in the fourth quarter of 2017 and throughout 2018.

Other operating loss, net. Other operating loss, net represents losses from the disposition of property, plant and equipment.

Comparative Results of Operations for the Twelve Months Ended December 31, 2017 and 2016

	Year Ended December 31, 2017	**2016**	**Variance**	**Percent Change**
	(In thousands)			
Revenues:				
Services	$10,952	$10,800	$ 152	1%
Products	123,732	130,258	(6,526)	(5)%
Total revenues	134,684	141,058	(6,374)	(5)%
Cost of products sold	82,760	88,325	(5,565)	(6)%
Operating expenses	13,783	13,771	12	—%
Selling, general and administrative expenses	4,136	3,861	275	7%
Depreciation and amortization	8,117	7,995	122	2%
	25,888	27,106	(1,218)	(4)%
Other operating loss, net	(26)	(291)	265	91%
Operating income	$25,862	$26,815	$ (953)	(4)%
Sulfur (long tons)	807.0	797.0	10.0	1%
Fertilizer (long tons)	276.0	262.0	14.0	5%
Sulfur services volumes (long tons)	1,083.0	1,059.0	24.0	2%

Services Revenues. Services revenues increased as a result of a contractually prescribed index based fee adjustment.

Products Revenues. Products revenues decreased $9.3 million as a result of a 7% decline in average sales price. Offsetting, products revenues increased $2.8 million due to a 2% increase in sales volumes, primarily related to a 5% increase in fertilizer volumes.

Cost of products sold. An 8% decrease in prices reduced cost of products sold by $7.4 million, resulting from a decline in commodity prices. A 2% increase in sales volumes caused an offsetting increase in cost of products sold of $1.9 million. Margin per ton decreased $1.78, or 4%.

Selling, general and administrative expenses. Our selling, general and administrative expenses increased $0.3 million due to increased compensation expense offset slightly by a decrease of $0.1 million in bad debt expense.

Depreciation and amortization. Depreciation expense increased $0.1 million due to capital projects being completed and placed in service during the second half of 2016.

Other operating loss, net. Other operating loss, net represents losses from the disposition of property, plant and equipment.

Marine Transportation Segment

Comparative Results of Operations for the Twelve Months Ended December 31, 2018 and 2017

	Year Ended December 31,		Variance	Percent Change
	2018	2017		
	(In thousands)			
Revenues	$52,830	$51,915	$915	2%
Operating expenses	41,086	44,028	(2,942)	(7)%
Selling, general and administrative expenses	1,060	358	702	196%
Impairment of long-lived assets	—	1,625	(1,625)	(100)%
Depreciation and amortization	7,590	7,002	588	8%
	3,094	(1,098)	4,192	382%
Other operating loss, net	(381)	(113)	(268)	(237)%
Operating income (loss)	$2,713	$(1,211)	$3,924	324%

Revenues. An increase of $1.8 million in inland revenue was primarily related to new equipment being placed in service. Revenue was also impacted by an increase in pass-through revenue (primarily fuel) of $2.1 million. An offsetting decrease of $3.1 million is attributable to revenue related to equipment sold or being classified as idle or held for sale. A $0.2 million increase in offshore revenues is primarily the result of increased utilization.

Operating expenses. The decrease in operating expenses is primarily a result of decreased labor and burden of $1.8 million, a reclassification of labor and burden from operating expense to selling general and administrative expense for the 2018 period of $0.7 million, repairs and maintenance of $0.8 million, barge rental expense of $1.0 million, property and liability insurance premiums of $1.0 million, and outside towing of $0.3 million. These decreases were offset by an increase in pass through expenses (primarily fuel) of $2.2 million, marine Jones Act claims of $0.4 million, and contract labor of $0.3 million.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to the reclassification of expenses from operating expense to selling, general, and administrative expense of $0.7 million for the 2018 period.

Impairment of long-lived assets. This represents the loss on impairment of non-core operating assets.

Depreciation and amortization. Depreciation and amortization increased as a result of recent capital expenditures offset by asset disposals.

Other operating loss, net. Other operating loss represents losses from the disposition of property, plant and equipment.

Comparative Results of Operations for the Twelve Months Ended December 31, 2017 and 2016

	Year Ended December 31,		Variance	Percent Change
	2017	2016		
	(In thousands)			
Revenues	$51,915	$61,233	$(9,318)	(15)%
Operating expenses	44,028	53,118	(9,090)	(17)%
Selling, general and administrative expenses	358	18	340	1,889%
Impairment of long lived assets	1,625	11,701	(10,076)	(86)%
Impairment of goodwill	—	4,145	(4,145)	(100)%
Depreciation and amortization	7,002	10,572	(3,570)	(34)%
	(1,098)	(18,321)	17,223	94%
Other operating loss, net	(113)	(1,567)	1,454	93%
Operating income (loss)	$(1,211)	$(19,888)	$18,677	94%

Inland revenues. A decrease of $7.2 million is primarily attributable to decreased transportation rates and decreased utilization of the inland fleet resulting from an abundance of supply of marine equipment in our predominantly Gulf Coast market.

Offshore revenues. A $2.4 million decrease in offshore revenues is primarily the result of the 2016 period including the recognition of previously deferred revenues of $1.5 million and decreased utilization of the offshore fleet due to downtime associated with regulatory inspections of $0.7 million.

Operating expenses. The decrease in operating expenses is primarily a result of decreased labor and burden of $3.9 million, repairs and maintenance of $1.3 million, Jones Act claims of $0.8 million, pass-through expenses (primarily barge tank cleaning) of $0.7 million, outside towing of $0.4 million, barge rental expense of $0.4 million, property taxes of $0.3 million, operating supplies of $0.3 million, and property insurance premiums of $0.2 million.

Selling, general and administrative expenses. Selling, general and administrative expenses increased primarily due to the 2016 period including the collection of a previously deemed uncollectible receivable of $0.5 million, offset by decreased legal fees of $0.1 million.

Impairment of long-lived assets. This represents the loss on impairment of non-core operating assets.

Loss on impairment of goodwill. This represents the loss on impairment of goodwill in the Marine Transportation reporting unit during the second quarter of 2016.

Depreciation and amortization. Depreciation and amortization decreased as a result of the disposal of property, plant and equipment combined with the impairment of long-lived assets recognized in the fourth quarter of 2016, offset by recent capital expenditures.

Other operating loss, net. Other operating loss represents losses from the disposition of property, plant and equipment.

Interest Expense

Comparative Components of Interest Expense, Net for the Twelve Months Ended December 31, 2018 and 2017

	Year Ended December 31,		Variance	Percent Change
	2018	2017		
	(In thousands)			
Revolving loan facility	$20,193	$18,192	$ 2,001	11%
7.250 % senior unsecured notes	27,101	27,101	—	—%
Amortization of deferred debt issuance costs	3,445	2,897	548	19%
Amortization of debt premium	(306)	(306)	—	—%
Other	2,258	1,532	726	47%
Capitalized interest	(624)	(730)	106	15%
Interest income	(30)	(943)	913	97%
Total interest expense, net	$52,037	$47,743	$ 4,294	9%

Comparative Components of Interest Expense, Net for the Twelve Months Ended December 31, 2017 and 2016

	Year Ended December 31,		Variance	Percent Change
	2017	2016		
	(In thousands)			
Revolving loan facility	$ 18,192	$ 19,482	$ (1,290)	(7)%
7.250 % senior unsecured notes	27,101	27,326	(225)	(1)%
Amortization of deferred debt issuance costs	2,897	3,684	(787)	(21)%
Amortization of debt premium	(306)	(306)	—	—%
Impact of interest rate derivative activity, including cash settlements	—	(995)	995	100%
Other	1,532	291	1,241	426%
Capitalized interest	(730)	(1,126)	396	35%
Interest income	(943)	(2,256)	$ 1,313	58%
Total interest expense, net	$ 47,743	$ 46,100	$ 1,643	4%

Indirect Selling, General and Administrative Expenses

	Year Ended December 31,		Variance	Percent Change	Year Ended December 31,		Variance	Percent Change
	2018	2017			2017	2016		
	(In thousands)				(In thousands)			
Indirect selling, general and administrative expenses	$17,901	$17,332	$ 569	3%	$17,332	$16,795	$ 537	3%

The increase in indirect selling, general and administrative expenses from 2017 to 2018 is primarily a result of increased unit based compensation expense.

The increase in indirect selling, general and administrative expenses from 2016 to 2017 is primarily a result of a $0.6 million increase in audit, consulting and other professional fees.

Martin Resource Management allocates to us a portion of its indirect selling, general and administrative expenses for services such as accounting, treasury, clerical, engineering, legal, billing, information technology, administration of insurance, general office expenses and employee benefit plans and other general corporate overhead functions we share with Martin Resource Management retained businesses. This allocation is based on the percentage of time spent by Martin Resource Management personnel that provide such centralized services. GAAP also permits other methods for allocation of these expenses, such as basing the allocation on the percentage of revenues contributed by a segment. The allocation of these expenses between Martin Resource Management and us is subject to a number of judgments and estimates, regardless of the method used. We can provide no assurances that our method of allocation, in the past or in the future, is or will be the most accurate or appropriate method of allocation for these expenses. Other methods could result in a higher allocation of selling, general and administrative expense to us, which would reduce our net income.

Under the Omnibus Agreement, we are required to reimburse Martin Resource Management for indirect general and administrative and corporate overhead expenses. The Conflicts Committee approved the following reimbursement amounts:

	Year Ended December 31, 2018	**2017**	**Variance**	**Percent Change**	**Year Ended December 31, 2017**	**2016**	**Variance**	**Percent Change**
	(In thousands)				**(In thousands)**			
Conflicts Committee approved reimbursement amount	$16,416	$16,416	$ —	—%	$16,416	$13,033	$ 3,383	26%

The amounts reflected above represent our allocable share of such expenses. The Conflicts Committee will review and approve future adjustments in the reimbursement amount for indirect expenses, if any, annually.

Liquidity and Capital Resources

General

Our primary sources of liquidity to meet operating expenses, pay distributions to our unitholders and fund capital expenditures have historically been cash flows generated by our operations and access to debt and equity markets, both public and private. Management believes that expenditures for our current capital projects will be funded with cash flows from operations, current cash balances and our current borrowing capacity under the expanded revolving credit facility. Given the current environment, we have altered and reduced our planned growth capital expenditures. We believe that controlling our spending in an effort to preserve liquidity is prudent and reduces our need for near-term access to the somewhat uncertain capital markets.

Our ability to satisfy our working capital requirements, to fund planned capital expenditures and to satisfy our debt service obligations will also depend upon our future operating performance, which is subject to certain risks. Please read "Item 1A. Risk Factors - Risks related to Our Business" for a discussion of such risks.

Recent Debt Financing Activity

Credit Facility Amendment. On February 21, 2018, we amended our revolving credit facility in order to achieve two primary objectives, the first of which was to accommodate growth capital expenditures necessary for the previously announced WTLPG expansion project. Starting in the first quarter of 2018, the amendment provided short-term (5 quarters) covenant relief by increasing the total leverage ratio to 5.75 to 1.00 (first and second quarters of 2018) with step downs to 5.50 to 1.00 (third and fourth quarters of 2018 and first quarter of 2019) and to 5.25 to 1.00 beginning in the second quarter of 2019. Additionally, the facility was amended to establish an inventory financing sublimit tranche for borrowings related to our NGL (butane) marketing business, which is a part of and not in addition to the already existing commitments under the revolving credit facility. This sublimit is not to exceed $75.0 million, with seasonal step downs to $10.0 million for the months of March through June of each fiscal year. The sublimit is subject to a monthly borrowing base not to exceed 90% of the value of forward sold/hedged inventory. In conjunction with the sale of WTLPG on July 31, 2018, we amended our revolving credit facility which included, among other things, further revising our leverage covenants from the February 21, 2018 amendment (discussed in detail above). Total Indebtedness to EBITDA and Senior Secured Indebtedness to EBITDA (each as defined in the credit agreement) was amended to 5.25 times and 3.50 times, respectively. No changes were made to the Consolidated Interest Coverage Ratio (as defined in the credit agreement) of 2.50 times.

Due to the foregoing, we believe that cash generated from operations and our borrowing capacity under our credit facility will be sufficient to meet our working capital requirements and anticipated maintenance capital expenditures in 2019.

Finally, our ability to satisfy our working capital requirements, to fund planned capital expenditures and to satisfy our debt service obligations will depend upon our future operating performance, which is subject to certain risks. Please read "Item 1A. Risk Factors - Risks Relating to Our Business" for a discussion of such risks.

Cash Flows - Twelve Months Ended December 31, 2018 Compared to Twelve Months Ended December 31, 2017

The following table details the cash flow changes between the twelve months ended December 31, 2018 and 2017:

	Years Ended December 31,		Variance	Percent Change
	2018	2017		
	(In thousands)			
Net cash provided by (used in):				
Operating activities	$90,726	$67,506	$23,220	34%
Investing activities	147,654	(37,878)	185,532	490%
Financing activities	(238,170)	(29,616)	(208,554)	(704)%
Net increase (decrease) in cash and cash equivalents	$210	$12	$198	34%

Net cash provided by operating activities. The increase in net cash provided by operating activities for the twelve months ended December 31, 2018 includes a $52.6 million favorable variance in working capital and a $4.8 million decrease in other non-cash charges. Offsetting was a decrease in operating results of $20.6 million and an unfavorable variance in other non-current assets and liabilities of $2.1 million. Net cash provided by discontinued operating activities decreased $2.0 million.

Net cash provided by (used in) investing activities. Net cash provided by investing activities for the twelve months ended December 31, 2018 increased primarily as a result of a $177.3 million increase in net cash provided by discontinued investing activities. Additionally, a decrease in cash used in investing activities as a result of the acquisition of certain asphalt terminalling assets from Martin Resource Management in 2017, compared to no acquisitions in 2018, resulted in an increase of $19.5 million. Further, a decrease in cash used of $2.3 million is due to lower payments for capital expenditures and plant turnaround costs in 2018 as well as a $1.0 million increase in proceeds received as a result of higher sales of property, plant and equipment in 2018. Offsetting was a $15.0 million decline in proceeds received resulting from repayment of the Note receivable - affiliate in 2017 as compared to none in 2018.

Net cash used in financing activities. Net cash used in financing activities increased for the twelve months ended December 31, 2018 as a result of an increase in net repayments of long-term borrowings of $160.0 million as well as a decrease in proceeds received from the issuance of common units (including the related general partner contribution) of $52.3 million. Also contributing was an increase in cash distributions paid of $1.5 million and an additional $1.2 million in costs associated with our credit facility amendment. Offsetting was a decrease in cash used of $6.7 million related to excess purchase price over the carrying value of acquired assets in common control transactions.

Cash Flows - Twelve Months Ended December 31, 2017 Compared to Twelve Months Ended December 31, 2016

The following table details the cash flow changes between the twelve months ended December 31, 2017 and 2016:

	Years Ended December 31,		Variance	Percent Change
	2017	2016		
	(In thousands)			
Net cash provided by (used in):				
Operating activities	$67,506	$110,848	$(43,342)	(39)%
Investing activities	(37,878)	63,839	(101,717)	(159)%
Financing activities	(29,616)	(174,703)	145,087	83%
Net decrease in cash and cash equivalents	$12	$(16)	$28	175%

Net cash provided by operating activities. The decline in net cash provided by operating activities includes a decrease in operating results from continuing operations of $14.5 million and a $29.6 million unfavorable variance in working capital. Further decreases were due to an $11.8 million decrease in other non-cash charges and a decrease in distributions received from WTLPG of $2.1 million. Offsetting was an increase of $14.6 million attributable to a favorable variance in other non-current assets and liabilities.

Net cash (used in) provided by investing activities. Net cash from investing activities decreased as a result of a decrease of $100.1 million in net proceeds from the sale of property, plant and equipment. The 2017 period also included an acquisition of $19.5 million compared to an acquisition of $2.2 million in 2016, resulting in a $17.4 million decrease in cash. Offsetting these decreases was an increase of $15.0 million for proceeds received from repayment of the Note receivable - affiliate and a decrease in payments for capital expenditures and plant turnaround costs of $1.2 million.

Net cash used in financing activities. Net cash used in financing activities decreased for the year ended December 31, 2017 as a result of a decrease in net repayments of long-term borrowings of $57.0 million. Proceeds received from the issuance of common units (including the related general partner contribution) increased net cash by $52.2 million. Also contributing was a decrease in cash distributions paid of $41.2 million and $5.2 million less in costs associated with our credit facility amendment. Offsetting was an increase of $10.9 million related to excess purchase price over the carrying value of acquired assets in common control transactions.

Capital Resources

Historically, we have generally satisfied our working capital requirements and funded our capital expenditures with cash generated from operations and borrowings. We expect our primary sources of funds for short-term liquidity will be cash flows from operations and borrowings under our credit facility.

Total Contractual Obligations. A summary of our total contractual obligations as of December 31, 2018, is as follows (dollars in thousands):

	Payments due by period				
Type of Obligation	Total Obligation	Less than One Year	1-3 Years	3-5 Years	More than 5 years
Revolving credit facility	$287,000	$—	$287,000	$—	$—
2021 senior unsecured notes	373,800	—	373,800	—	—
Throughput commitment	16,030	6,194	9,836	—	—
Operating leases	27,921	7,869	8,633	3,596	7,823
Interest payable on fixed long-term obligations	57,589	27,101	30,488	—	—
Total contractual cash obligations	$762,340	$41,164	$709,757	$3,596	$7,823

The interest payable under our revolving credit facility is not reflected in the above table because such amounts depend on the outstanding balances and interest rates, which vary from time to time.

Letter of Credit. At December 31, 2018, we had outstanding irrevocable letters of credit in the amount of $16.9 million, which were issued under our revolving credit facility.

Off Balance Sheet Arrangements. We do not have any off-balance sheet financing arrangements.

Description of Our Long-Term Debt

2021 Senior Notes

We and Martin Midstream Finance Corp., a subsidiary of us (collectively, the "Issuers"), entered into (i) an Indenture, dated as of February 11, 2013 (the "2021 Indenture") among the Issuers, certain subsidiary guarantors (the "2021 Guarantors") and Wells Fargo Bank, National Association, as trustee (the "2021 Trustee") and (ii) a Registration Rights Agreement, dated as of February 11, 2013 (the "2021 Registration Rights Agreement"), among the Issuers, the 2021 Guarantors and Wells Fargo Securities, LLC, RBC Capital Markets, LLC, RBS Securities Inc., SunTrust Robinson Humphrey, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of a group of initial purchasers, in connection with a private placement to eligible purchasers of $250.0 million in aggregate principal amount of the Issuers' 7.25% senior unsecured notes due 2021 (the "2021 Notes"). On April 1, 2014, we completed a private placement add-on of $150.0 million of the 2021 Notes. In 2015, we repurchased on the open market and subsequently retired an aggregate $26.2 million of our outstanding 2021 Notes.

Interest and Maturity. The Issuers issued the 2021 Notes pursuant to the 2021 Indenture in transactions exempt from registration requirements under the Securities Act of 1933, as amended (the "Securities Act"). The 2021 Notes were resold to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside the United States pursuant to Regulation S under the Securities Act. The 2021 Notes will mature on February 15, 2021. The interest payment dates are February 15 and August 15.

Optional Redemption. Prior to February 15, 2017, the Issuers may on any one or more occasions redeem all or a part of the 2021 Notes at the redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date. On or after February 15, 2017, the Issuers may on any one or more occasions redeem all or a part of the 2021 Notes at the redemption prices (expressed as percentages of principal amount) equal to 103.625% for the twelve-month period beginning on February 15, 2017, 101.813% for the twelve-month period beginning on February 15, 2018 and 100.00% for the twelve-month period beginning on February 15, 2019 and at any time thereafter, plus accrued and unpaid interest, if any, to the applicable redemption date on the 2021 Notes.

Certain Covenants. The 2021 Indenture restricts our ability and the ability of certain of our subsidiaries to: (i) sell assets including equity interests in our subsidiaries; (ii) pay distributions on, redeem or repurchase our units or redeem or repurchase our subordinated debt; (iii) make investments; (iv) incur or guarantee additional indebtedness or issue preferred units; (v) create or incur certain liens; (vi) enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us; (vii) consolidate, merge or transfer all or substantially all of our assets; (viii) engage in transactions with affiliates; (ix) create unrestricted subsidiaries; (x) enter into sale and leaseback transactions; or (xi) engage in certain business activities. These covenants are subject to a number of important exceptions and qualifications. If the 2021 Notes achieve an investment grade rating from each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services and no Default (as defined in the 2021 Indenture) has occurred and is continuing, many of these covenants will terminate.

Events of Default. The 2021 Indenture provides that each of the following is an Event of Default: (i) default for 30 days in the payment when due of interest on the 2021 Notes; (ii) default in payment when due of the principal of, or premium, if any, on the 2021 Notes; (iii) failure by us to comply with certain covenants relating to asset sales, repurchases of the 2021 Notes upon a change of control and mergers or consolidations; (iv) failure by us for 180 days after notice to comply with our reporting obligations under the Securities Exchange Act of 1934; (v) failure by us for 60 days after notice to comply with any of the other agreements in the 2021 Indenture; (vi) default under any mortgage, indenture or instrument governing any indebtedness for money borrowed or guaranteed by us or any of our restricted subsidiaries, whether such indebtedness or guarantee now exists or is created after the date of the 2021 Indenture, if such default: (a) is caused by a payment default; or (b) results in the acceleration of such indebtedness prior to its stated maturity, and, in each case, the principal amount of the indebtedness, together with the principal amount of any other such indebtedness under which there has been a payment default or acceleration of maturity, aggregates $20.0 million or more, subject to a cure provision; (vii) failure by us or any of our restricted subsidiaries to pay final judgments aggregating in excess of $20.0 million, which judgments are not paid, discharged or stayed for a period of 60 days; (viii) except as permitted by the 2021 Indenture, any subsidiary guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force or effect, or any 2021 Guarantor, or any person acting on behalf of any Guarantor, denies or disaffirms its obligations under its subsidiary guarantee; and (ix) certain events of bankruptcy, insolvency or reorganization described in the 2021 Indenture with respect to the Issuers or any of our restricted subsidiaries that is a significant subsidiary or any group of restricted subsidiaries that, taken together, would constitute a significant subsidiary of us. Upon a continuing Event of Default, the 2021 Trustee, by notice to the Issuers, or the holders of at least 25% in principal amount of the then outstanding 2021 Notes, by notice to the Issuers and the 2021 Trustee, may declare the 2021 Notes immediately due and payable, except that an Event of Default resulting from entry into a bankruptcy, insolvency or reorganization with respect to the Issuers, any restricted subsidiary of us that is a significant subsidiary or any group of its restricted subsidiaries that, taken together, would constitute a significant subsidiary of us, will automatically cause the 2021 Notes to become due and payable.

Revolving Credit Facility

At December 31, 2018, we maintained a $664.4 million credit facility. This facility was most recently amended on July 24, 2018, which included, among other things, revising our existing leverage covenants. Total Indebtedness to

EBITDA and Senior Secured Indebtedness to EBITDA (each as defined in the credit agreement) was amended to 5.25 times and 3.50 times, respectively. No changes were made to the Consolidated Interest Coverage Ratio (as defined in the credit agreement) of 2.50 times.

As of December 31, 2018, we had $287.0 million outstanding under the revolving credit facility and $16.9 million of letters of credit issued, leaving a maximum available to be borrowed under our credit facility for future revolving credit borrowings and letters of credit of $360.5 million. Subject to the financial covenants contained in our credit facility and based on our existing EBITDA (as defined in our credit facility) calculations, as of December 31, 2018, we have the ability to borrow approximately $25.8 million of that amount. We were in compliance with all financial covenants at December 31, 2018.

The revolving credit facility is used for ongoing working capital needs and general partnership purposes, and to finance permitted investments, acquisitions and capital expenditures. During the year ended December 31, 2018, the level of outstanding draws on our credit facility has ranged from a low of $287.0 million to a high of $500.0 million.

The credit facility is guaranteed by substantially all of our subsidiaries. Obligations under the credit facility are secured by first priority liens on substantially all of our assets and those of the guarantors, including, without limitation, inventory, accounts receivable, bank accounts, marine vessels, equipment, fixed assets and the interests in our subsidiaries.

We may prepay all amounts outstanding under the credit facility at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements. The credit facility requires mandatory prepayments of amounts outstanding thereunder with the net proceeds of certain asset sales, equity issuances and debt incurrences.

Indebtedness under the credit facility bears interest at our option at the Eurodollar Rate (the British Bankers Association LIBOR Rate) plus an applicable margin or the Base Rate (the highest of the Federal Funds Rate plus 0.50%, the 30-day Eurodollar Rate plus 1.0%, or the administrative agent's prime rate) plus an applicable margin. We pay a per annum fee on all letters of credit issued under the credit facility, and we pay a commitment fee per annum on the unused revolving credit availability under the credit facility. The letter of credit fee, the commitment fee and the applicable margins for our interest rate vary quarterly based on our leverage ratio (as defined in the credit facility, being generally computed as the ratio of total funded debt to consolidated earnings before interest, taxes, depreciation, amortization and certain other non-cash charges) and are as follows as of December 31, 2018:

Leverage Ratio	**Base Rate Loans**	**Eurodollar Rate Loans**	**Letters of Credit**
Less than 3.00 to 1.00	1.00 %	2.00 %	2.00 %
Greater than or equal to 3.00 to 1.00 and less than 3.50 to 1.00	1.25 %	2.25 %	2.25 %
Greater than or equal to 3.50 to 1.00 and less than 4.00 to 1.00	1.50 %	2.50 %	2.50 %
Greater than or equal to 4.00 to 1.00 and less than 4.50 to 1.00	1.75 %	2.75 %	2.75 %
Greater than or equal to 4.50 to 1.00	2.00 %	3.00 %	3.00 %

At December 31, 2018, the applicable margin for revolving loans that are LIBOR loans ranges from 2.00% to 3.00% and the applicable margin for revolving loans that are base prime rate loans ranges from 1.00% to 2.00%. The applicable margin for LIBOR borrowings at December 31, 2018 is 2.75%.

The credit facility includes financial covenants that are tested on a quarterly basis, based on the rolling four-quarter period that ends on the last day of each fiscal quarter.

In addition, the credit facility contains various covenants, which, among other things, limit our and our subsidiaries' ability to: (i) grant or assume liens; (ii) make investments (including investments in our joint ventures) and acquisitions; (iii) enter into certain types of hedging agreements; (iv) incur or assume indebtedness; (v) sell, transfer, assign or convey assets; (vi) repurchase our equity, make distributions and certain other restricted payments, but the credit facility permits us to make quarterly distributions to unitholders so long as no default or event of default exists under the credit facility; (vii) change the nature of our business; (viii) engage in transactions with affiliates; (ix) enter into certain burdensome agreements; (x) make certain amendments to the Omnibus Agreement and our material agreements; (xi) make capital expenditures; and (xii) permit our joint ventures to incur indebtedness or grant certain liens.

The credit facility contains customary events of default, including, without limitation: (i) failure to pay any principal, interest, fees, expenses or other amounts when due; (ii) failure to meet the quarterly financial covenants; (iii) failure to observe any other agreement, obligation, or covenant in the credit facility or any related loan document, subject to cure periods for certain failures; (iv) the failure of any representation or warranty to be materially true and correct when made; (v) our, or any of our subsidiaries' default under other indebtedness that exceeds a threshold amount; (vi) bankruptcy or other insolvency events involving us or any of our subsidiaries; (vii) judgments against us or any of our subsidiaries, in excess of a threshold amount; (viii) certain ERISA events involving us or any of our subsidiaries, in excess of a threshold amount; (ix) a change in control (as defined in the credit facility); and (x) the invalidity of any of the loan documents or the failure of any of the collateral documents to create a lien on the collateral.

The credit facility also contains certain default provisions relating to Martin Resource Management. If Martin Resource Management no longer controls our general partner, the lenders under the credit facility may declare all amounts outstanding thereunder immediately due and payable. In addition, an event of default by Martin Resource Management under its credit facility could independently result in an event of default under our credit facility if it is deemed to have a material adverse effect on us.

If an event of default relating to bankruptcy or other insolvency events occurs with respect to us or any of our subsidiaries, all indebtedness under our credit facility will immediately become due and payable. If any other event of default exists under our credit facility, the lenders may terminate their commitments to lend us money, accelerate the maturity of the indebtedness outstanding under the credit facility and exercise other rights and remedies. In addition, if any event of default exists under our credit facility, the lenders may commence foreclosure or other actions against the collateral.

We are subject to interest rate risk on our credit facility due to the variable interest rate and may enter into interest rate swaps to reduce this variable rate risk.

The Partnership is in compliance with all debt covenants as of December 31, 2018 and expects to be in compliance for the next twelve months.

Seasonality

A substantial portion of our revenues are dependent on sales prices of products, particularly NGLs and fertilizers, which fluctuate in part based on winter and spring weather conditions. The demand for NGLs is strongest during the winter heating season and the refinery blending season. The demand for fertilizers is strongest during the early spring planting season. However, natural gas storage division of the Natural Gas Services segment provides stable cash flows and is not generally subject to seasonal demand factors. Additionally, our Terminalling and Storage and Marine Transportation segments and the molten sulfur business are typically not impacted by seasonal fluctuations and a significant portion of our net income is derived from our terminalling and storage, sulfur and marine transportation businesses. Therefore, we do not expect that our overall net income will be impacted by seasonality factors. However, extraordinary weather events, such as hurricanes, have in the past, and could in the future, impact our Terminalling and Storage and Marine Transportation segments.

Impact of Inflation

Inflation did not have a material impact on our results of operations in 2018, 2017 or 2016. Although the impact of inflation has been insignificant in recent years, it is still a factor in the U.S. economy and may increase the cost to acquire or replace property, plant and equipment. It may also increase the costs of labor and supplies. In the future, increasing energy prices could adversely affect our results of operations. Diesel fuel, natural gas, chemicals and other supplies are recorded in operating expenses. An increase in price of these products would increase our operating expenses which could adversely affect net income. We cannot provide assurance that we will be able to pass along increased operating expenses to our customers.

Environmental Matters

Our operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. We incurred no material environmental costs, liabilities or expenditures to mitigate or eliminate environmental contamination during 2018, 2017 or 2016.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Commodity Risk. The Partnership from time to time uses derivatives to manage the risk of commodity price fluctuation. Commodity risk is the adverse effect on the value of a liability or future purchase that results from a change in commodity price. We have established a hedging policy and monitor and manage the commodity market risk associated with potential commodity risk exposure. In addition, we focus on utilizing counterparties for these transactions whose financial condition is appropriate for the credit risk involved in each specific transaction.

We have entered into hedging transactions as of December 31, 2018 to protect a portion of our commodity price risk exposure. These hedging arrangements are in the form of swaps for NGLs. We have instruments totaling a gross notional quantity of 55,000 barrels settling during the period from January 31, 2019 through February 28, 2019. These instruments settle against the applicable pricing source for each grade and location. These instruments are recorded on our Consolidated Balance Sheets at December 31, 2018 in "Fair value of derivatives" as a current asset of $0.04 million. Based on the current net notional volume hedged as of December 31, 2018, a $0.10 change in the expected settlement price of these contracts would result in an impact of $0.2 million to the Partnership's net income.

Interest Rate Risk. We are exposed to changes in interest rates as a result of our credit facility, which had a weighted-average interest rate of 5.24% as of December 31, 2018. Based on the amount of unhedged floating rate debt owed by us on December 31, 2018, the impact of a 100 basis point increase in interest rates on this amount of debt would result in an increase in interest expense and a corresponding decrease in net income of approximately $2.9 million annually.

We are not exposed to changes in interest rates with respect to our senior unsecured notes as these obligations are fixed rate. The estimated fair value of the senior unsecured notes was approximately $360.1 million as of December 31, 2018, based on market prices of similar debt at December 31, 2018. Market risk is estimated as the potential decrease in fair value of our long-term debt resulting from a hypothetical increase of a 100 basis point increase in interest rates. Such an increase in interest rates would result in approximately a $6.8 million decrease in fair value of our long-term debt at December 31, 2018.

Item 8. Financial Statements and Supplementary Data

The following financial statements of Martin Midstream Partners L.P. (Partnership) are listed below:

Report of Independent Registered Public Accounting Firm

To the Unitholders and Board of Directors
Martin Midstream Partners L.P. and Martin Midstream GP LLC:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Martin Midstream Partners L.P. and subsidiaries (the “Partnership”) as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in capital, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Partnership’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 19, 2019 expressed an unqualified opinion on the effectiveness of the Partnership’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Partnership’s auditor since 1981

Dallas, Texas
February 19, 2019

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Report of Independent Registered Public Accounting Firm

To the Unitholders and Board of Directors
Martin Midstream Partners L.P. and Martin Midstream GP LLC:

Opinion on Internal Control Over Financial Reporting

We have audited Martin Midstream Partners L.P. and subsidiaries' (the “Partnership”) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Partnership as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in capital, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”), and our report dated February 19, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Partnership’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Partnership’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas
February 19, 2019

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31,	
	2018	**2017**
Assets		
Cash	$237	$27
Trade and accrued accounts receivable, less allowance for doubtful accounts of $291 and $314, respectively	79,031	107,242
Product exchange receivables	166	29
Inventories (Note 7)	85,068	97,252
Due from affiliates	18,609	23,668
Fair value of derivatives (Note 13)	4	—
Other current assets	5,275	4,866
Assets held for sale (Note 5)	5,652	9,579
Total current assets	194,042	242,663
Property, plant and equipment, at cost (Note 8)	1,264,730	1,253,065
Accumulated depreciation	(466,381)	(421,137)
Property, plant and equipment, net	798,349	831,928
Goodwill (Note 9)	17,296	17,296
Investment in WTLPG (Note 11)	—	128,810
Intangibles and other assets, net (Note 15)	23,711	32,801
	$1,033,398	$1,253,498
Liabilities and Partners’ Capital		
Trade and other accounts payable	$63,157	$92,567
Product exchange payables	13,237	11,751
Due to affiliates	2,459	3,168
Income taxes payable	445	510
Fair value of derivatives (Note 13)	—	72
Other accrued liabilities (Note 15)	22,215	26,340
Total current liabilities	101,513	134,408
Long-term debt, net (Note 16)	656,459	812,632
Other long-term obligations	10,714	8,217
Total liabilities	768,686	955,257
Commitments and contingencies (Note 22)		
Partners’ capital (Note 17)	264,712	298,241
Total partners’ capital	264,712	298,241
	$1,033,398	$1,253,498

See accompanying notes to consolidated financial statements.

MARTIN MIDSTREAM PARTNERS L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per unit amounts)

	Year Ended December 31, 2018	**2017**	**2016**		
Revenues:					
	409,241	376,945			
Selling, general and administrative	101,865		15,770	47,253	38,842
Depreciation and amortization	46,244		7,545	23,694	15,005
Research and development	15,582		17	9,244	6,321
Facility closures, severance and related costs	220		(777)	195	802
Antitrust costs	6,716			6,716	
Merger costs	19,378		5,300	12,281	1,797
In-process research and development	75,400			51,582	23,818
Equity income	(602)			169	(771)
Operating loss	(49,740)		(12,909)	(30,116)	(6,715)
Interest expense	29,171		21,867	6,670	634
Loss on early extinguishment of debt	10,859		10,859		
Other expense (income), net	1,923		(3,333)	14,338	(9,082)
Equity in net loss (earnings) of subsidiaries		(94,378)	86,737	8,341	(700)
Earnings (loss) from continuing operations before income taxes	(91,693)	94,378	(129,039)	(59,465)	2,433
Income tax expense (benefit)	28,592		(8,754)	24,382	12,964
Earnings (loss) from continuing operations	(120,285)	94,378	(120,285)	(83,847)	(10,531)
Loss from discontinued operations	(25)				(25)
Gain (loss) on sale of discontinued operations	1,388		1,903		(515)
Net earnings (loss)	$ (118,922)	$ 94,378	$ (118,382)	$ (83,847)	$ (11,071)

Condensed Consolidating Statement of Earnings
Nine months ended September 30, 2005
(*In thousands*)

	Consolidated	**Eliminations**	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**
Net sales	$ 2,110,475	$ (442,720)	$ 392,021	$ 1,030,182	$ 1,130,992
Cost of products sold	1,546,085	(442,720)	327,726	765,020	896,059
Selling, general and administrative	227,772		46,513	91,091	90,168
Depreciation and amortization	104,107		29,490	37,670	36,947
Research and development	36,565		1,920	17,912	16,733
Facility closures, severance and related costs	24,295		21,240	2,656	399
Antitrust costs	13,220			13,220	
Merger costs	28,064		5,330	20,937	1,797
In-process research and development	75,400			51,582	23,818
Equity income	(776)			37	(813)
Operating profit (loss)	55,743		(40,198)	30,057	65,884
Interest expense	77,886		67,626	9,798	462
Loss on early extinguishment of debt	10,859		10,859		
Other expense (income), net	7,572		(2,614)	22,861	(12,675)

Equity in net loss (earnings) of subsidiaries		54,351	6,446	(45,704)	(15,093)
Earnings (loss) from continuing operations before income taxes	(40,574)	(54,351)	(122,515)	43,102	93,190
Income tax expense (benefit)	51,308		(30,633)	47,595	34,346
Earnings (loss) from continuing operations	(91,882)	(54,351)	(91,882)	(4,493)	58,844
Earnings (loss) from discontinued operations	2,631		1,454	(10)	1,187
Loss on sale of discontinued operations	(26,234)		(20,516)		(5,718)
Net earnings (loss)	$ (115,485)	$ (54,351)	$ (110,944)	$ (4,503)	$ 54,313

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Condensed Consolidating Balance Sheet

as of December 31, 2005

(*In thousands*)

	Consolidated	Eliminations	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
ASSETS					
Current assets	$ 1,541,600	$	$ 112,041	$ 589,739	$ 839,820
Intercompany receivables		(9,567,154)	3,422,949	2,654,945	3,489,260
Investment in subsidiaries		(5,429,263)	2,548,432	1,008,041	1,872,790
Property, plant and equipment	1,192,335		168,610	581,518	442,207
Cost in excess of acquired net assets	1,211,459		102,797	622,798	485,864
Other assets	1,040,609		307,602	511,439	221,568
Total assets	$ 4,986,003	$ (14,996,417)	$ 6,662,431	$ 5,968,480	$ 7,351,509
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities	$ 975,689	$	$ 231,784	$ 377,672	$ 366,233
Intercompany payables		(9,603,757)	4,496,917	2,379,879	2,726,961
Long-term debt	1,309,603		685,258	435,557	188,788
Other long-term liabilities	925,314		306,004	248,875	370,435
Total liabilities	3,210,606	(9,603,757)	5,719,963	3,441,983	3,652,417
Stockholders equity	1,775,397	(5,392,660)	942,468	2,526,497	3,699,092
Total liabilities and stockholders equity	4,986,003	$ (14,996,417)	$ 6,662,431	$ 5,968,480	$ 7,351,509

Condensed Consolidating Statement of Cash Flows

Nine months ended September 30, 2005

(*In thousands*)

	Consolidated	Eliminations	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries
Increase (decrease) to cash					
CASH FLOWS FROM OPERATING ACTIVITIES					
Net earnings (loss)	$ (115,485)	$ (54,351)	$ (110,944)	$ (4,503)	$ 54,313
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operations:					
Loss on sale of discontinued operations	26,234		20,516		5,718
Loss on early extinguishment of debt	10,859		10,859		
Depreciation and amortization	106,887		31,414	37,670	37,803
Stock-based compensation expense	3,291		3,291		
Equity income	(776)			37	(813)
In-process research and development	75,400			51,582	23,818
Changes in assets and liabilities, net	(132,466)	54,351	(92,507)	41,597	(135,907)
Net cash (used in) provided by operations	(26,056)		(137,371)	126,383	(15,068)
CASH FLOWS FROM INVESTING ACTIVITIES					
Net proceeds from divestments	92,002		73,859		18,143
Acquisitions, net of cash acquired	69,405			42,557	26,848
Merger transaction costs paid	(16,360)		(12,807)	(3,553)	
Capital expenditures	(58,303)		(7,702)	(32,058)	(18,543)
Other investing activities	(56)		(84)	28	
Net cash provided by investing activities	86,688		53,266	6,974	26,448
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from (payments on) domestic credit facility	122,000		143,000	(21,000)	
Proceeds from long term borrowings	9,000			9,000	
Payments on long term borrowings	(132,241)		(120,000)	(12,241)	
Payments on short term borrowings	(413)		(57)	(53)	(303)
Premium paid on early extinguishment of debt	(3,323)		(3,323)		
Payments of debt issuance costs	(2,478)		(2,478)		
Dividends paid	(23,997)		(23,997)		
Proceeds from exercise of stock options	74,752		74,752		
Other financing activities	(1,833)		(2,158)	325	
Net cash (used in) provided by financing activities	41,467		65,739	(23,969)	(303)
CASH					
Effect of exchange rates on cash	(8,535)				(8,535)
Change in cash	93,564		(18,366)	109,388	2,542
Cash at beginning of period	158,700		22,972	1,248	134,480
Cash at end of period	$ 252,264	$	$ 4,606	$ 110,636	$ 137,022

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Chemtura Corporation:

We have reviewed the condensed consolidated balance sheet of Chemtura Corporation and subsidiaries as of September 30, 2006, the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 30, 2006 and 2005, and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

As discussed in the Stock-Based Compensation note to the condensed consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment on January 1, 2006.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Chemtura Corporation and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 31, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Stamford, Connecticut
November 9, 2006

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Description of Business

Crompton Corporation was historically a global diversified producer of specialty chemicals (including agricultural chemicals), polymer products and polymer processing equipment. On July 1, 2005, the Company completed a merger (the Merger) with Great Lakes Chemical Corporation (Great Lakes). In conjunction with the Merger, the Company changed its name to Chemtura Corporation (the Company).

The Company is a global company dedicated to delivering innovative, market-focused specialty chemical solutions and consumer products. The Company currently has approximately 6,300 employees worldwide and sells its products in more than 100 countries. Headquartered in Middlebury, Connecticut, the Company operates in various markets, principally automotive, transportation, construction, agriculture, packaging, lubricants, plastics for durable and non-durable goods, industrial rubber, electronics and pool and spa chemicals. Most of its chemical products are sold to industrial manufacturing customers for use as additives, ingredients or intermediates that add value to their end products.

The primary economic factors that influence the Company s operations and sales are industrial production, residential and commercial construction, auto production and resin production. In addition, the Company s Crop Protection segment is influenced by worldwide weather, disease and pest infestation conditions. The Company s Consumer Products segment is also influenced by general economic conditions impacting consumer spending and weather conditions.

Other major factors affecting the Company s financial performance include industry capacity, customer demand, raw material and energy costs and selling prices. The Company s strategy is to pursue selling prices that reflect the value of our products and to pass on higher costs for raw material and energy so as to preserve our profit margins. Our target is to achieve a 15% operating profit margin across our business portfolio.

The third quarter of 2006 marked the one-year anniversary of the Merger. As such, the results for the third quarter of 2006 as compared to the same quarter in 2005 provide comparisons based on the consolidated entity. The major reason for increases in the Company s revenues and expenses for nine month period ended September 30, 2006 as compared to the same period in 2005 is the Merger. Comments related to those increases, as well as a detailed review of the Company s financial position and results of operations for all periods are included in the remainder of this Item 2. The remainder of this introduction discusses key factors affecting the Company s overall business performance for the three and nine month periods ended September 30, 2006 and other significant events.

For the quarter ended September 30, 2006 as compared to the same quarter in 2005, the Company experienced a slight decline in sales but was able to slightly improve gross margin as a percentage of sales. Additionally, continued weakness in non-flame retardant plastic additives, EPDM and Rubber Chemicals businesses and lower than expected results in the Crop Protection segment have also impacted results for the three and nine-month periods ended September 30, 2006.

During the third quarter of 2006, the Company undertook its annual impairment analysis of goodwill required by and performed in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other, Intangible Assets , (Statement No. 142). As of September 30, 2006, the Company recorded a non-cash impairment charge to goodwill of $51.9 million related solely to the Fluorine business. Additionally, the Company recorded an impairment charge related to certain assets used in the Fluorine business of $22.7 million. These impairments are consistent with the overall decline in future earnings expectations due primarily to continued weak market share and the projected loss of revenue in the Fluorine business resulting from the loss of a customer.

The non-flame retardant plastic additives product line, included within the Plastic Additives segment, continued to show volume improvements over the same period last year. However volumes did not improve to the level expected due to market share loss resulting from price increases the Company implemented in 2005. While pricing narrowly improved for these products in the first quarter of 2006 as compared to the first quarter of 2005, prices have been sequentially declining since the fourth quarter of 2005. During the third quarter of 2006, the Company began to see a rebound of volumes and will continue to focus on rebuilding the profitability of these products in the wake of market share losses late in 2005.

The flame retardant product line, included within the Plastic Additives segment, reported continued strength during the quarter ended September 30, 2006. Flame retardant products continue to benefit from selling price increases that were passed along to our customers to recover cost increases the Company experienced in the prior year. The increase in selling prices was partially offset by a net reduction in volume. Volume declines were not the result of price increases in most major products, except for Bromine which has recalled some previously implemented price increases. Additionally, the flame

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retardant business is benefiting from production efficiencies. The Company expects that flame retardants pricing improvements will continue into the fourth quarter of 2006.

The Polymers segment demonstrated continued weakness in the quarter and nine month periods ended September 30, 2006 as compared to the same periods in 2005, primarily due to weak demand, overcapacity and EPDM pricing that was insufficient to offset the increase in raw material and energy costs. This weakness was only partly offset by favorable volume, improved pricing and cost reductions for urethanes products. The Company expects conditions in its EPDM end markets to continue to be weak for the remainder of 2006 and therefore is not anticipating significant improvements in net sales or operating profits. The Company anticipates that conditions in the urethanes business will continue to improve.

The Specialty Additives segment reported an increase in sales in the third quarter of 2006 as compared with the same quarter in 2005 primarily due to petroleum additive price increases; however, those increases did not offset previous declines in rubber chemical sales in the first half of 2006. This segment continued to report declines in operating profits for both the third quarter and nine months ended September 30, 2006 as compared to the same periods in 2005 primarily due to weakness in the rubber chemical business. The Company s petroleum additive products experienced continued pricing improvement which, for the third quarter of 2006, offset volume loss and production inefficiencies. Earnings in the Company s rubber chemical products were weak compared to 2005 due to lower volumes and lower pricing. Lower volumes reflect a reduction in the Company s manufacturing footprint, weak market demand, and competition from imported products. The Company expects that results related to petroleum additive products will increase in the fourth quarter of 2006, while earnings for the full year related to rubber chemical products will continue to be weak.

Crop Protection results for the three and nine month periods ended September 30, 2006 declined as compared with results for the same periods in 2005. These declines are primarily related to a reduction in volume due to North American weather conditions, competition in the miticides business and economic pressures in the Brazilian agricultural markets, somewhat offset by increases due to the Merger and the acquisition of Trace Chemicals in the first half of 2006. Additionally, the Company increased its reserve for uncollectible accounts receivable in response to diminished liquidity in the Brazilian agricultural markets.

The Consumer Products segment was not included in the results for the first six months of 2005, because it was acquired as part of the Merger. However, this segment has continued to experience strong growth since the date of the Merger through the third quarter of 2006. Growth from the third quarter of 2005 to the third quarter of 2006 is related to stronger pricing and improved efficiencies. These benefits were partially offset by lower volumes, the majority of which related to the loss of a customer due to price increases, coupled with the higher cost of raw materials. The Company anticipates that the Consumer Products segment will continue to show profit improvement for the remainder of 2006.

The Company is working to improve the profitability of some businesses that are not performing as anticipated. Strengthened management in the non-flame retardant plastic additives business has placed increased focus on specific areas for improvement including a review of the Company s manufacturing sites to find areas where production efficiencies can be made and marketing strategies. The Company is anticipating a gradual recovery in that business. Additionally, the Company is assessing cost reduction actions and other initiatives to improve results for both rubber chemical and EPDM products and pursuing a potential sale of these businesses. The Company is currently assessing opportunities for cost reductions to realize the goal of achieving selling, general and administrative and research and development expenditures that are 10% as a percent of total revenue, as well as cost and other improvement initiatives to improve the Company s gross margins closer to the goal of 30%.

Cost Savings

The Company has undertaken various cost reduction initiatives over the past several years and continues to aggressively pursue cost reductions. As a result of the Merger, the Company is continuing to identify savings opportunities. The Company recognized $19.3 million in cost savings during 2005 and expects to achieve approximately $80 to $90 million of incremental savings in 2006 versus the pro forma combined results in 2005, and approximately $50 million of incremental savings in 2007, for a cumulative total of approximately $150 million. As of September 30, 2006, actual pre-tax merger related savings, based on the combined operations of the Company and Great Lakes for the nine months ended September 30, 2006 versus the pro forma combined results for the nine months ended September 30, 2005, totaled approximately $61.4 million. Both the annual cost savings and one-time expenditures are dependent upon the final integration activities that are being implemented by the Company. It is possible that the actual costs and savings amounts will differ from these current estimates.

The Company is in the process of implementing a new cost savings initiative to support its continuing efforts to become more efficient and reduce costs. As of September 30, 2006, the Company is still finalizing the specific plans that will be implemented throughout 2006 and 2007, and the projected cost savings impact and one-time costs that it expects to incur.

The Company is utilizing Six Sigma, Lean Manufacturing initiatives and outside consultants to assist in identifying and implementing process improvements.

Significant Transactions

The Company continues to assess its business portfolio and debt position. To date in 2006, the Company has undertaken the following initiatives:

1. On November 2, 2006, the Company signed a non-binding letter of intent to sell its EPDM business and portions of its Rubber Chemical business. The terms of the agreement are still in the discussion phase. A definitive agreement is expected to be signed by December 31, 2006.

2. On October 30, 2006, the Company sold its majority interest in the Davis Standard LLC venture to its partner, Hamilton Robinson LLC for approximately $60.4 million in cash, plus an additional $8.4 million that is payable upon finalizing certain post-closing determinations. Subsequent to September 30, 2006 and prior to the sale, the Company received $13.3 million in cash distributions. The Company expects to have a gain on this transaction.

3. On October 2, 2006, the Company entered into a settlement agreement for $51.0 million with respect to the rubber chemical portion of the direct purchaser class action lawsuits filed against the Company. This Agreement, which is subject to court approval, resolves over 90% of the Company s exposure to direct rubber chemical claims. In anticipation of this settlement, the Company recorded an additional $12.2 million of antitrust costs during September 2006.

4. During the third quarter of 2006, the Company completed its annual impairment testing of goodwill as required under Statement of Financial Accounting Standards (Statement) No. 142, Goodwill and Other Intangible Assets (Statement 142). The results of this analysis required the Company to reduce goodwill by $51.9 million related to the Fluorine business.

5. Contemporaneous with the loss of revenue in the Fluorine business, the Company was required to test the recoverability of long-lived assets under Statement No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets. The Company incurred a charge of $22.7 million related to this impairment.

6. During the third quarter of 2006, the Company recorded an increase to goodwill of $25.8 million to adjust deferred tax assets for tax periods prior to the Merger for the impact of an examination by the Internal Revenue Service and the filing of the corporations pre-merger income tax return, as well as a refund of pre-merger related income taxes received during the third quarter.

7. In July 2006, the Company completed the redemption of the remaining $158.9 million of the Company s outstanding 9.875% Senior Notes due 2012 (2012 Notes), which was funded through borrowings under the Company s Credit Facility, the uncommitted working capital facilities and available cash. The purchase price to tender the 2012 Notes was $1,123.87 per $1,000 in principal amount. The premium and other costs associated with the redemption were $24.3 million and have been recorded as a loss on early extinguishment of debt in the third quarter of 2006.

8. On June 23, 2006, the Company sold a significant portion of the real estate at the West Lafayette, Indiana location, for net proceeds of $6.1 million, inclusive of $0.4 million of associated costs. There was no gain or loss recognized on this sale.

9. On May 12, 2006, the Company sold its Industrial Water Additives (IWA) business to BWA Water Additives (BWA) for $85 million, exclusive of a $10.2 million adjustment for retained accounts receivable and payable. A reduction in net assets of $81.0 million, primarily related to $33.6 million of goodwill; $32.5 million of net intangibles

related to technology, brands and customer relationships; and \$12.2 million of finished goods inventory were attributable to this sale. Additionally, the Company incurred \$3.3 million in associated costs, \$0.4 million related to employee retention agreements and \$2.3 million due to future losses related to supply agreements with BWA and \$0.4 million of other costs. A loss of \$12.5 million (\$14.1 million after-tax) has been included in (gain) loss on sale of businesses net, on the condensed consolidated statement of earnings.

No facilities or manufacturing assets were included in this transaction and Chemtura will continue to manufacture and sell products to BWA via supply agreements. These assets were reviewed for recoverability under the requirements of Statement 144, and a charge of \$5.6 million related to the impairment of the fully-dedicated manufacturing assets retained was recorded in operating profit.

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Contemporaneous with the sale, the Company entered into an exclusive distribution agreement with BWA related to the Liquibrom product line.

10. On May 24, 2006, the Company completed a tender offer to repurchase the remaining $164.8 million of its outstanding Senior Floating Rate Notes due 2010 (2010 Notes). The purchase price to tender the 2010 Notes was $1,095.83 per $1,000 in principal amount. As a result of the tender, the Company recorded a loss on early extinguishment of debt of $19.5 million during the second quarter of 2006. The loss includes a premium of $15.8 million and the write-off of unamortized deferred costs of $3.7 million.

11. On April 19, 2006, the Company and certain of its consolidated subsidiaries entered into an underwriting agreement with several financial institutions for the sale by the Company of $500 million aggregate principal amount of 6.875% Senior Notes due 2016 (2016 Notes). The offering closed on April 24, 2006 and the Company received net proceeds from the offering of $492.3 million after expenses. The proceeds were utilized to repay the outstanding balance on the Company s revolving credit facility of $364 million, the outstanding balance on uncommitted lines of credit of $50 million and to repurchase receivables under the domestic receivable securitization programs of $60 million, with the remaining proceeds used for general corporate purposes.

12. On March 24, 2006, the Company acquired the Trace Chemicals business from Bayer CropScience LP for net cash of $6.7 million. Trace Chemicals is a leader in farmer-applied seed treatments in markets serving the United States of America. The acquisition will serve to enhance the Company s offerings in the Crop Protection business.

ANTITRUST INVESTIGATIONS COSTS AND RELATED MATTERS

On October 2, 2006, the Company entered into a settlement agreement with respect to the rubber chemical portion of the direct purchaser class action lawsuits filed against the Company. The agreement provides that the Company will pay $51.0 million to resolve class claims. This Agreement, which is subject to court approval, resolves over 90% of the Company s exposure to direct rubber chemical claims. In anticipation of this settlement, the Company recorded an additional $12.2 million of antitrust costs during September 2006. In addition, the Company recorded $5.1 million of antitrust costs during the third quarter of 2006 related to indirect and multi-product civil claims. The overall reserve for civil antitrust litigation was $96.5 million on September 30, 2006. See Antitrust Investigation and Related Matters in the Notes to Consolidated Condensed Financial Statements on page 28, and Item I Legal Proceedings under Part II on page 70.

LIQUIDITY AND CAPITAL RESOURCES

Refinancing and Redemptions

On April 19, 2006, the Company and certain of its consolidated subsidiaries entered into an underwriting agreement with several financial institutions for the sale by the Company of $500 million aggregate principal amount of 6.875% Senior Notes due 2016 (2016 Notes). The offering was made under the Company s shelf registration statement on Form S-3 filed with the Securities and Exchange Commission on April 19, 2006 and by a prospectus supplement dated April 19, 2006. The underwriters purchased the 2016 Notes from the Company at 98.452% (a 6.95% effective rate) of their principal amount, plus accrued interest from April 24, 2006. The offering closed on April 24, 2006 and the Company received net proceeds from the offering of $492.3 million after expenses. The proceeds were utilized to repay the outstanding balance on the Company s revolving credit facility of $364 million, the outstanding balance on uncommitted lines of credit of $50 million and to reduce borrowings under the domestic receivable securitization programs of $60 million, with the remaining proceeds used for general corporate purposes.

On May 24, 2006, the Company completed the tender offer to repurchase the remaining $164.8 million of its outstanding Senior Floating Rate Notes due 2010 (2010 Notes). The purchase price to tender the 2010 Notes was $1,095.83 per $1,000 principal amount. As a result of the tender, the Company recorded a loss on early extinguishment of debt of $19.5 million during the second quarter of 2006. The loss includes the premium of $15.8 million and the write-off of unamortized deferred costs of $3.7 million.

In July 2006, the Company completed the redemption of the remaining $158.9 million of the Company s outstanding 9.875% Senior Notes due 2012 (2012 Notes), which will be funded through the Company s revolving Credit Facility, the uncommitted working capital facilities and available cash. The purchase price to tender the 2012 Notes is $1,123.87 per $1,000 principal amount. As a result of the tender, the Company recorded a pre-tax loss on early extinguishment of debt of $24.3 million during the third quarter of 2006. The loss includes a premium of $19.7 million, the write-off of unamortized deferred costs of $3.8 million and the write-off of unamortized original issue discount of $0.8 million.

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Acquisition

On March 24, 2006, the Company acquired the Trace Chemicals business from Bayer CropScience LP. Trace Chemicals is a leader in farmer-applied seed treatments in markets serving the United States. The acquisition will serve to enhance the Company s offerings in the Crop Protection business. The net cash paid for this acquisition was $6.7 million.

Divestitures

On June 23, 2006, the Company sold a significant portion of the real estate at the West Lafayette, Indiana location, for net proceeds of $6.1 million, inclusive of $0.4 million of associated costs. There was no gain or loss recognized on this sale.

On May 12, 2006, the Company sold its IWA business to BWA for $85 million, exclusive of a $10.2 million adjustment for retained accounts receivable and payable, receiving net proceeds of $74.8 million. The Company incurred $3.3 million of costs associated with the transaction. Under the terms of the agreement the Company expects to pay an additional $1.7 million related to inventory adjustments and employee retention agreements. Contemporaneously with the sale, the Company entered into supply agreements for manufactured product with BWA. The Company accrued $2.3 million related to anticipated losses associated with these supply agreements. Effective with the sale, the Company recorded an impairment charge of $5.6 million related to the fully dedicated retained manufacturing assets of the IWA business, to properly reflect the fair value of the assets retained. The Company does not anticipate that the absence of the IWA business will have a significant impact on its cash flows from operations or its capital resources.

Cash Flows from Operations

Net cash provided by operations was $281.7 million for the nine months ended September 30, 2006 as compared with net cash used in operations of $26.1 million for the nine months ended September 30, 2005. Changes in key working capital accounts are summarized below:

Source (use) **(In thousands)**	**Nine months ended September 30, 2006**	**Nine months ended September 30, 2005**	**Change**
Accounts receivable	$ 51,414	$ 112,878	$ (61,464)
Accounts receivable securitization	$ 213,759	$ (58,158)	$ 271,917
Inventories	$ (4,659)	$ 45,195	$ (49,854)
Accounts payable	$ (48,798)	$ (95,699)	$ 46,901

The decrease in accounts receivable during the nine months ended September 30, 2006 and September 30, 2005 was primarily a result of the liquidation of receivables of the Consumer Products and Crop Protection businesses during the third quarters of 2006 and 2005 due to normal seasonal collections. The Company experienced a greater increase in accounts receivable sold under the Company s securitization programs from September 30, 2005 to September 30, 2006 mainly due to the expansion of the domestic and international securitization programs in 2006 to include the Great Lakes accounts receivables and optimize the benefits under these programs. The increase in inventory for the nine month period ended September 30, 2006 was marginal compared to a decrease in inventory of $45.2 million for the first nine months of 2005, which was primarily due to the realization of a $37.1 million purchase accounting fair value impact on inventories acquired from Great Lakes. The changes in accounts payable for both periods presented are primarily a result of timing of vendor payments.

During the first nine months of 2006 and 2005, the Company s pension and post-retirement health care liabilities decreased by $58.7 million and $47.8 million, respectively, primarily due to domestic and international pension plan payments, including supplemental voluntary contributions to domestic qualified pension plans of $40 million in 2006 and $20 million in 2005. In addition, during the first nine months of 2005 a deposit of $40.3 million for a global civil antitrust settlement was made.

Net cash provided by operations in the nine months ended September 30, 2006 was also affected by various charges, net of related payments. A summary of these items and the net impact on cash flows provided by (used in) operations is as follows:

(In millions)	Net Change per Condensed Consolidated Cash Flow Statement	Nine months ended September 30, 2006 (Income) Expense	Nine months ended September 30, 2006 Cash Payments
Non-capitalizable Merger costs	$ (12.5)	$ 15.9	$ (28.4)
Facility closure, severance and related costs	$ (12.5)	$ (1.9)	$ (10.6)
Antitrust settlements	$ 19.3	$ 55.8	$ (36.5)
Interest expense	$ (0.3)	$ 80.9	$ (81.2)
Management incentive plans	$ (9.4)	$ 0.7	$ (10.1)
Income taxes	$ (55.0)	$ (0.3)	$ (54.7)

Net cash provided by operations for the nine months ended September 30, 2006 also reflects the impact of $148.3 million of pre-tax non-cash depreciation and amortization expense, an estimated non-cash impairment charge related to goodwill of $51.9 million, $5.6 million pre-tax non-cash asset impairment charge related to the impairment of retained assets of the IWA business that was sold in May 2006 and a $22.7 million pre-tax non-cash asset impairment charge related to the impairment of certain tangible and intangible assets of the Fluorine business.

Cash Flows from Investing and Financing Activities

Net cash provided by investing activities for the nine months ended September 30, 2006 was $43.2 million, which included proceeds from the sale of the IWA business of $74.8 million, earn-out proceeds from the sale of the OrganoSilicones business of $54.4 million and proceeds from the sale of the former Great Lakes office building in West Lafayette of $6.5 million, partially offset by $77.8 million of capital expenditures, $8.4 million of merger transaction costs and $6.7 million of net cash paid for the acquisition of Trace Chemicals.

Net cash used in financing activities was $340.7 million for the nine months ended September 30, 2006, which included net payments on the credit facility of $414.1 million, payments on long-term borrowing of $323.7 million related to the retirement of the Company s 2010 Notes and 2012 Notes, payments on short-term borrowings of $14.0 million, dividends paid of $36.1 million, premiums paid of $35.6 million for the early extinguishment of the 2010 Notes and 2012 Notes, payment for debt issuance costs of $5.8 million related to issuance of the Company s 2016 Notes, and the repayment of a loan borrowed against the cash surrender value of life insurance policies of $9.9 million. These payments were partially offset by proceeds from long-term borrowings of $497.3 million related to the 2016 Notes issued in April 2006, and proceeds from the exercise of stock options of $3.2 million.

As a result of the sale of the OrganoSilicones business to GE in 2003, the Company will continue to receive quarterly earn-out payments through December 2006 based on the minimum required payments and additional payments contingent on combined performance through September 2006 of GE s existing Silicones business and the OrganoSilicones business that GE acquired from the Company. The total of such earn-out proceeds was for a minimum of $105 million and a maximum of $250 million. During the nine months ended September 30, 2006, the Company received a total of $54.4 million, of which $28.2 million represented additional contingent earn-out proceeds received in 2006, related to the combined performance of the GE and OrganoSilicones businesses. To date, the Company has received the $105 million minimum earn-out and a cumulative total of $61.2 million of additional contingent earn-out proceeds in excess of the minimum payments. The Company expects to receive its final additional contingent earn-out payment of $5.8 million by December 31, 2006, which represents the performance of GE s Silicones business during the third quarter of 2006. As a result of the expiration of the performance contingency on September 30, 2006, the total cumulative additional contingent earn-out of $67.0 million ($45.9 million, net of taxes) has been recognized as a gain on the sale of discontinued operations as of September 30, 2006.

Capital expenditures for the nine months ended September 30, 2006 amounted to $77.8 million as compared with $58.3 million for the same period of 2005. The increase is primarily due to the inclusion of the Great Lakes businesses. The Company estimates that its annual capital expenditures for 2006 will approximate $125 million, primarily for the improvement of domestic and foreign facilities and environmental and other compliance.

Other Sources and Uses of Cash

The Company expects to finance its post-merger continuing operations and capital spending requirements for 2006 with cash flows provided by operations, earn-out proceeds from the sale of its OrganoSilicones business expected to be received through December 31, 2006, proceeds from sales of businesses, available cash and cash equivalents, additional sales of accounts receivable under its securitization programs, borrowings under its revolving credit facility and proceeds from the 2016 Notes offered for sale on April 19, 2006 or other sources, including the debt capital markets. On a full year basis the Company expects cash from operations to exceed cash requirements.

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On October 30, 2006, the Company sold its majority interest in the Davis Standard LLC venture to its partner, Hamilton Robinson LLC for approximately $60.4 million in cash, plus an additional $8.4 million that is payable upon finalizing certain post-closing determinations. Subsequent to September 30, 2006 and prior to the sale, the Company received approximately $13.3 million in cash distributions. On November 2, 2006, the Company signed a non-binding letter of intent to sell its EPDM business and portions of its Rubber Chemical business, for which a definitive agreement is expected to be signed by December 31, 2006. The Company plans to use the proceeds from these transactions for further debt reductions and to invest in its core specialty chemical businesses.

In July 2006, the Company expanded availability under its five-year credit facility available through July 2010 (the Credit Facility) from $725 million to $740 million, and is evaluating the expansion of availability up to $750 million. There were no borrowings under the Credit Facility at September 30, 2006. The Company also has uncommitted working capital facilities in the amount of $25 million due in May 2007 and $50 million due in July 2007, of which $10 million and $25 million were outstanding at September 30, 2006, respectively.

In addition, as of September 30, 2006, the Company has an accounts receivable securitization program to sell up to $275 million of domestic receivables to agent banks. In September 2006, the Company amended the domestic accounts receivable program to provide that up to $100 million of the consideration payable to the Company may be in the form of letters of credit issued to the Company or its designees. As of September 30, 2006, $143.4 million of domestic accounts receivable had been sold under this program. In addition, the Company s European subsidiaries have a separate program to sell up to approximately $175 million of their eligible accounts receivable to agent banks. As of September 30, 2006, $155.4 million of international accounts receivable had been sold under this program.

Included in cash and cash equivalents in the Company s condensed consolidated balance sheets at September 30, 2006 and December 31, 2005, are $2.5 million and $2.4 million, respectively, of restricted cash that is required to be on deposit to support certain letters of credit and performance guarantees, the majority of which will be settled within one year. There are no additional legal restrictions on these cash balances.

The Company does not expect to make any additional contributions to its domestic qualified pension plans during the fourth quarter of 2006. However, the Company expects to contribute approximately $3.5 million to its international and non-qualified plans during the fourth quarter of 2006.

Bank Covenants and Guarantees

The Company s various debt agreements contain covenants that limit the Company s ability to enter into certain transactions, such as incurring additional indebtedness, increasing the Company s dividends, and entering into acquisitions, dispositions and joint ventures. The Company is required to report compliance with certain financial covenants to its lenders on a quarterly basis. Under these covenants, the Company is required to maintain a leverage ratio (adjusted total debt to adjusted earnings before interest, taxes, depreciation and amortization (Bank EBITDA), with adjustments to both debt and earnings being made in accordance with the terms of the Credit Facility agreement) and an interest coverage ratio (Bank EBITDA to interest expense as defined in the credit facility agreement). The Company was in compliance with the covenants of its various debt agreements at September 30, 2006 and expects to be in the future.

The Company has standby letters of credit and guarantees with various financial institutions. At September 30, 2006, the Company had $157.7 million of outstanding letters of credit and guarantees primarily related to its environmental remediation liabilities, insurance obligations, a potential tax exposure and a customer guarantee.

In May 2006, certain covenants in the Company s Credit Facility were amended for the balance of 2006 and beyond, in response to higher than planned merger related expenses, higher antitrust legal fees and weaker earnings.

Merger Costs

The Company s one-time costs incurred through September 30, 2006, resulting from the Merger, inclusive of costs incurred by Great Lakes prior to the Merger, are summarized as follows:

(In millions)	Costs Incurred through September 30, 2006
Transaction costs	$ 48.8
Cash change-in-control expenditures	101.4
Non-cash change-in-control costs	15.6
Post-merger severance payments due to headcount reductions at Great Lakes	7.9
Total Capitalized Merger Costs (a)	$ 173.7
Merger integration costs	$ 51.3
Post-merger headcount reductions - Crompton	9.8
Total Merger Costs Expensed (b)	$ 61.1

(a) Represents costs incurred by Great Lakes prior to the Merger and additional costs incurred by Chemtura subsequent to the Merger that have been recorded under purchase accounting as a purchase price adjustment. Includes one-time expenditures directly related to the closing of the transaction, such as investment banking, legal, audit and other fees. Also includes one-time severance and related costs due to the change in control of Great Lakes, as well as additional severance for the termination of former Great Lakes employees.

(b) Represents costs incurred by Chemtura that are related to the Merger and recorded as an operating expense. These include one-time expenditures to support the integration of the two companies, including costs associated with the use of consultants and advisors, employee relocation and retention costs and severance and related costs for the termination of former Crompton employees.

As of September 30, 2006, the Company had terminated approximately 595 employees worldwide as a direct result of the Merger. The Company expects to pay a substantial portion of its remaining Merger integration costs by the end of 2006. The Company expects to incur approximately an additional $2 million to $4 million of Merger integration costs during the remainder of 2006 and into the first quarter of 2007, primarily for consulting costs and employee relocation and other costs related to the integration of the two companies.

Cost Reduction Programs

As a result of the Merger, the Company is continuing to identify savings opportunities. Pre-tax merger related savings for the year ended December 31, 2005, based on the pro forma combined operations of the Company and Great Lakes versus the pro forma combined results for the year ended December 31, 2004, were approximately $19.3 million. In addition, the Company expects to achieve approximately $80 to $90 million of incremental savings in 2006 versus the pro forma combined results in 2005, and approximately $50 million of incremental savings in 2007, for a cumulative total of approximately $150 million. Actual pre-tax merger related savings, based on the combined operations of the Company and Great Lakes for the nine months ended September 30, 2006 versus the pro forma combined results for the nine months ended September 30, 2005, totaled approximately $61.4 million, of which $30.1 million was in selling, general and administrative expenses (SG&A), $27.8 million was in cost of products sold and $3.6 million in research and development (R&D). Both the annual cost savings and one-time expenditures are dependent upon the final integration activities that are being implemented by the Company. It is possible that the actual costs and savings amounts will differ from current estimates.

In light of lower than planned 2006 earnings in some of the Company s businesses, management is in the process of implementing additional potential savings programs to reduce SG&A expense and improve gross margin. As of September 30, 2006, the Company is still finalizing the specific plans that will be implemented in 2006, and the projected cost savings impact and one-time costs that it expects to incur in connection with implementing these plans in the future.

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RESULTS OF OPERATIONS

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands, except per share data)	**2006**	**2005**	**2006**	**2005**
Net sales				
Plastic Additives	$ 403,451	$ 374,561	$ 1,210,122	$ 792,830
Polymers	122,938	121,897	374,826	391,218
Specialty Additives	137,387	133,702	423,804	420,943
Crop Protection	88,963	102,652	278,385	271,542
Consumer Products	132,686	140,294	450,293	140,294
Polymer Processing Equipment				48,338
Other	31,586	45,310	111,665	45,310
Total net sales	$ 917,011	$ 918,416	$ 2,849,095	$ 2,110,475
Operating profit (loss)				
Plastic Additives	$ 17,501	$ 25,443	$ 90,457	$ 57,528
Polymers	17,360	24,328	51,760	75,684
Specialty Additives	16,076	19,704	48,625	76,242
Crop Protection	11,432	29,554	57,143	74,256
Consumer Products	17,079	10,508	63,800	10,508
Polymer Processing Equipment				(3,003)
Other	2,024	4,864	10,910	4,864
	81,472	114,401	322,695	296,079
General corporate expense, including amortization	(32,670)	(25,327)	(99,974)	(62,257)
Facility closures, severance and related costs	(863)	(220)	1,913	(24,295)
Antitrust costs	(25,669)	(6,716)	(70,752)	(13,220)
Merger costs	(1,102)	(19,378)	(15,892)	(28,064)
Purchase accounting inventory fair value impact		(37,100)		(37,100)
In-process research and development		(75,400)		(75,400)
Gain (loss) on the sale of businesses, net	113		(12,362)	
Income related to sale of Gustafson joint venture	1,500		1,500	
Impairment of non-current assets	(74,653)		(80,263)	
Total operating profit (loss)	(51,872)	(49,740)	46,865	55,743
Interest expense	22,401	29,171	80,871	77,886
Loss on early extinguishment of debt	24,348	10,859	43,897	10,859
Other expense, net	3,129	1,923	(2,385)	7,572
Loss from continuing operations before income taxes	(101,750)	(91,693)	(75,518)	(40,574)
Income tax expense (benefit)	(15,933)	28,592	(3,326)	51,308
Loss from continuing operations	(85,817)	(120,285)	(72,192)	(91,882)
Earnings (loss) from discontinued operations		(25)		2,631
Gain (loss) on sale of discontinued operations	45,925	1,388	45,925	(26,234)
Net loss	$ (39,892)	$ (118,922)	$ (26,267)	$ (115,485)
Basic earnings (loss) per common share				
Loss from continuing operations	$ (0.36)	$ (0.51)	$ (0.30)	$ (0.58)
Earnings (loss) from discontinued operations				0.02
Gain (loss) on sale of discontinued operations	0.19	0.01	0.19	(0.17)
Net loss	$ (0.17)	$ (0.50)	$ (0.11)	$ (0.73)
Diluted earnings (loss) per common share				
Loss from continuing operations	$ (0.36)	$ (0.51)	$ (0.30)	$ (0.58)
Earnings (loss) from discontinued operations				0.02
Gain (loss) on sale of discontinued operations	0.19	0.01	0.19	(0.17)
Net loss	$ (0.17)	$ (0.50)	$ (0.11)	$ (0.73)

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THIRD QUARTER RESULTS

Overview

Consolidated net sales of $917.0 million for the third quarter of 2006 were $1.4 million below net sales for the third quarter of 2005 of $918.4 million. The decline was mainly due to $21.7 million of lower sales volume primarily attributable to Consumer Products and Crop Protection sales as well as $13.6 million of lower sales in the third quarter of 2006 due to the divestiture of the Industrial Water Additives business (IWA) in the second quarter of 2006. This decline was partially offset by $26.5 million of increased selling prices primarily in the flame retardant, petroleum additives and consumer products businesses coupled with increased volume in the non-flame retardant plastic additives and urethane businesses and favorable foreign currency translation of $7.0 million. In addition, International sales for the third quarter of 2006, including U.S. exports, were 50% of total sales, compared with 45% for the same quarter of 2005. The increase from period to period was due primarily to a lower percentage of international sales from the acquired Great Lakes businesses.

The net loss for the third quarter of 2006 was $39.9 million, or $0.17 per diluted share, as compared to a net loss of $118.9 million, or $0.50 per diluted share, for the third quarter of 2005. The net loss for the third quarter of 2006 includes a gain on sale of discontinued operations of $45.9 million (net of income taxes of $21.1 million), or $0.19 per diluted share, which represents the recognition of the additional contingent earn-out proceeds that have been earned as of September 30, 2006 related to the OrganoSilicones business that was sold in 2003. The net loss for the third quarter of 2005 included $1.4 million after tax, or $0.01 per diluted share, related to a gain on the sale of discontinued operations.

The loss from continuing operations for the third quarter of 2006 was $85.8 million, or $0.36 per diluted share, compared to $120.3 million, or $0.51 per diluted share, for the third quarter of 2005. This improvement is due to lower interest expense of $6.8 million, a $2.4 million increase in equity income from the Davis Standard joint venture and a higher tax benefit in 2006 compared to 2005 principally due to the absence of non-recurring taxes in 2005 on dividends under the Foreign Earnings Repatriation provisions of the 2004 American Jobs Creation Act and the lack of any tax benefit in 2005 for the write-off of in-process research and development related to the Merger. These increases were partially offset by a decrease of 4% in operating profit discussed below and higher costs of $13.5 million for the loss on early extinguishment of debt principally related to the early retirement of the Company s 9.875% Notes in July 2006.

The loss from continuing operations for the third quarter of 2005 of $120.3 million, or $0.51 per diluted share, included pre-tax merger related costs consisting of the write-off of in-process research and development of $75.4 million, a charge to cost of products sold for the fair value impact of purchase accounting on inventory of $37.1 million and merger costs of $19.4 million. In addition, the loss from continuing operations for the third quarter of 2005 included pre-tax charges for the loss on the early extinguishment of debt of $10.9 million, antitrust costs of $6.7 million and charges for facility closures, severance and related costs of $0.2 million.

Gross profit for the third quarter of 2006 was $218.8 million or 23.9% of net sales compared to third quarter 2005 gross profit of $215.1 million or 23.4% of net sales. This improvement reflects increased selling prices of $26.5 million, the achievement of $10.0 million of savings attributable to cost reduction initiatives and the absence of a $37.1 million purchase accounting inventory write-off during the third quarter of 2005. The effect of these increases more than offset the impact of lower unit volume of $18.4 million, higher raw material and energy costs of $30.3 million, unfavorable manufacturing costs of $11.8 million primarily related to lower production volume, higher freight costs of $6.9 million related to fuel surcharges, inventory write-offs of $3.6 million, additional depreciation expense of $2.9 million resulting from a change in the useful life of assets at one of the Company s manufacturing facilities. An additional $3.5 million of the decline in gross profit is the result of the divestiture of the IWA business. All segments experienced lower sales volume and unfavorable manufacturing variances which were partially offset by increased pricing in the petroleum additives, flame retardants and consumer products businesses and savings from cost reduction programs across all segments. Higher raw material and energy charges significantly impacted the Plastic Additives, Polymers and Specialty Additives segments.

In the third quarter of 2006, the Company reclassified certain amounts relating to operations from other (income) expense, net to SG&A, (gain) loss on sale of businesses, net and income related to the sale of Gustafson joint venture in the condensed consolidated statement of earnings. The items reclassified include (a) legacy Witco pension and other post-retirement benefit obligations related to businesses for which the Company has continuing involvement, (b) gains and losses on the sales of businesses which did not meet the criteria to be considered discontinued operations and (c) gains on the sale of equity method investees for which income had previously been reported within operating profit (loss). Although the Company properly classified these items within earnings (loss) from continuing operations, the Company improperly did not include these items as a component of operating profit (loss) in prior periods.

The effect of the 2006 reclassification on the consolidated statements of earnings for the prior quarters of 2006 is as follows:

(In thousands)	Quarters Ended in 2006 March 31,	June 30,
Increase to SG&A	$ 130	$ 128
(Gain) loss on sale of business, net		12,475
Decrease to operating profit	(130)	(12,603)
Change to other (income) expense, net	$ (130)	$ (12,603)

The effect of the 2006 reclassification on the consolidated statements of earnings for the quarters of 2005 is as follows:

(In thousands)	Quarters ended in 2005 March 31,	June 30,	September 30,	December 31,
Increase to SG&A	$ 681	$ 681	$ 682	$ 682
(Gain) loss on sale of businesses, net				(3,199)
Increase/(decrease) to operating profit	$ (681)	$ (681)	$ (682)	$ 2,517
Change to other (income) expense, net	$ (681)	$ (681)	$ (682)	$ 2,517

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These reclassifications had no impact on the Company s previously reported income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) or basic or diluted earnings per share amounts. Additionally, the effect of these changes did not affect the Company s calculations under any debt covenants or for executive compensation plans.

During 2005, the Company reclassified certain immaterial amounts relating to operations from other expense, net to cost of products sold and SG&A in the 2005 condensed consolidated statement of earnings. For the quarter ended September 30, 2005, the Company reclassified other expense, net of $1.3 million to operating profit (loss), which resulted in an increase in cost of products sold of $0.6 million and an increase in SG&A of $0.7 million.

Selling, general and administrative expenses of $103.5 million for the third quarter of 2006 increased by $1.7 million compared to third quarter of 2005 SG&A of $101.9 million. The increase was primarily attributable to higher general corporate expenses of $7.3 million, an increase of $4.5 million in the provision for doubtful accounts mainly attributable to customers in Brazil and unfavorable currency translation of $1.4 million. These increases were offset by savings from merger synergies of $9.6 million and a decrease of $3.2 million due to the divestiture of a urethanes product line and IWA. Depreciation and amortization of $50.9 million increased by $4.7 million from the third quarter of 2005 primarily due to additional depreciation expense of $2.9 million resulting from a change in useful life of assets at one of the Company s manufacturing facilities. Research and development costs of $16.6 million increased by $1.0 million over the prior year s comparable period primarily related to the timing of new projects.

Facility closures, severance and related costs were $0.9 million for the third quarter of 2006 as compared to a $0.2 million for the third quarter of 2005. The 2006 costs were primarily for severance related to the Company s 2006 cost savings initiative.

The Company incurred antitrust costs of $25.7 million in the third quarter of 2006 compared to $6.7 million during the third quarter of 2005. Antitrust costs for the third quarter of 2006 include $21.7 million primarily for settlement offers made to certain rubber chemicals and indirect case claimants and securities class action plaintiffs and $4.0 million for legal costs associated with the antitrust investigations and civil lawsuits. Antitrust costs for the third quarter of 2005 include $3.9 million for a settlement with EPDM claimants in Canada and $2.8 million for legal costs associated with the antitrust investigations and civil lawsuits.

During the third quarter of 2006, the Company incurred $1.1 million of merger costs related to the Merger, compared to $19.4 million during the third quarter of 2005. These non-capitalizable merger costs primarily consist of relocation and moving costs directly attributable to the integration of the two companies and severance costs for former Crompton employees.

The impairment charge for non-current assets of $74.6 million during the third quarter of 2006 includes the impairment of goodwill of $51.9 million and the impairment of certain tangible and intangible assets of the $22.7 million Fluorine business.

The operating loss for the third quarter of 2006 was $51.9 million as compared to an operating loss of $49.7 million for the third quarter of 2005. This 4% decrease is primarily due to an estimated goodwill impairment charge of $51.9 million, higher raw material and energy costs of $30.3 million, a $19.0 million increase in antitrust costs primarily related to settlements reached in the third quarter of 2006, lower sales volume of $18.4 million, a $22.7 million charge related to the impairment of certain tangible and intangible assets of the Fluorine business, $11.8 million of unfavorable manufacturing costs resulting from lower production volumes, higher freight costs of $6.9 million related to fuel surcharges, an increase in the provision for doubtful accounts of $4.5 million primarily resulting from the current economic situation of the agricultural markets in Brazil, inventory write-offs of $3.6 million, the absence of $3.5 million of operating profit due to the sale of IWA in May 2006, additional depreciation expense of $2.9 million resulting from a change in the useful life of assets at one of the Company s manufacturing facilities and $2.4 million related to the incremental stock-based compensation associated with the adoption of FASB Statement No. 123(R), Share Based Payment, on January 1, 2006, which were partially offset by the absence of non-recurring third quarter 2005 merger related charges for the write-off of in-process research and development of $75.4 million and a purchase accounting inventory adjustment of $37.1 million resulting from the Merger, reduced merger costs of $18.3 million, increased selling prices of $26.5 million, cost reduction program savings of $21.0 million and income related to sale of Gustafson joint venture of $1.5 million.

Plastic Additives

Third quarter 2006 Plastic Additives sales of $403.5 million increased by 7.7% from the third quarter of 2005 primarily due to selling price increases of 14.4% in the flame retardants business, partially offset 2.7% by lower pricing in the non-flame retardant plastic additives business. Third quarter 2006 volume increased 7.3% in the non-flame retardant plastic additives business and declined by 2.8% in the flame retardant business. Operating profit of $17.5 million for the third quarter of 2006 decreased by $7.9 million from the third quarter of 2005 mainly due to higher raw material and energy costs of $12.5 million, unfavorable manufacturing variances of $8.7 million, higher freight costs of $5.9 million and inventory write-offs of $4.3 million. Unfavorable factors were partially offset by higher selling prices of $18.8 million in the flame retardant business, cost reduction program savings of $10.7 million due to synergies related to the Merger and $2.0 million for direct costs resulting from Hurricanes Katrina and Rita in 2005.

Polymers

Polymer sales of $122.9 million for the third quarter of 2006 increased by 0.9% from the same period in the prior year. Urethane sales were higher by 8.3% due to volume growth of 5.0% in the Americas, Europe, Japan and China, favorable currency translation of 1.7%, and price increases of 1.6% in an effort to pass increases in raw material costs to customers. EPDM sales were 10.5% below prior year primarily due to competitive pressures on volume of 9.6% and 1.3% from lower pricing to maintain current sales volume. Operating profit of $17.4 million decreased by $7.0 million from the third quarter of 2005, principally due to higher material and energy costs of $8.8 million mainly related to near record high pricing for ethylene (a raw material used in EPDM) due to tight supply and unfavorable manufacturing variances related to lower production volume of $1.4 million. Reductions were partially offset by cost reduction program savings of $1.7 million, higher pricing of $0.5 million, favorable currency translation of $0.6 million, divestiture related savings of $0.4 million and $0.9 million for direct costs resulting from Hurricanes Katrina and Rita in 2005.

Specialty Additives

Specialty Additives sales of $137.4 million for the third quarter of 2006 increased by 2.8% from the third quarter of 2005 due to higher Petroleum Additives pricing of 15.5% partially offset by lower Rubber Chemicals volume of 7.6%, lower Petroleum additives volume of 1.6% and lower rubber chemical pricing of 5.4%. Price increases in Petroleum Additives reflected recovery at higher costs while price decreases in Rubber Chemicals were realized to limit losses in sales volume. Rubber Chemicals year over year sales volumes were lower mainly due to manufacturing capacity reductions implemented in the prior year and losses in market share due to price competition. Operating profit of $16.1 million decreased by $3.6 million from the third quarter of 2005 principally due to higher raw material and energy costs of $5.7 million, lower volume of $2.5 million, higher freight costs of $1.3 million and higher general and other costs of $3.6 million. Lower income was partially offset by $8.5 million of higher net selling prices and $1.0 million for direct costs resulting from Hurricanes Katrina and Rita in 2005.

Crop Protection

Crop Protection sales of $89.0 million for the third quarter of 2006 decreased by 13.3% from the third quarter of 2005 due primarily to unfavorable weather in the North American miticide markets and economic pressure on the Brazilian agriculture industry. These factors primarily accounted for a 12.0% decline in sales while lower selling prices resulted in a 2.5% decline in sales. Operating profit of $11.4 million decreased by $18.1 million from the prior year mainly due to lower sales volume of $7.4 million, higher selling program expenses of $1.9 million, lower selling prices of $2.6 million, unfavorable manufacturing variances of $2.9 million and increased bad debt reserve of $3.8 million. Reductions were partially offset by cost reduction program savings of $1.1 million and lower raw material and energy costs of $0.1 million.

Consumer Products

Consumer Products sales in the third quarter of 2006 of $132.7 million were 5.4% below Consumer Product sales for the third quarter of 2005 primarily due to the loss of a major customer that resulted from 2006 price increases. Price increases of 6.1% were offset 12.5% by lower volume that decreased in reaction to price increases. Operating profit in the third quarter of 2006 of $17.1 million was $6.6 million higher than the prior year primarily due to $8.5 million of profit recovery related price increases, favorable manufacturing variances of $3.4 million, synergy related savings of $3.2 million and $0.7 million for direct costs resulting from Hurricanes Katrina and Rita in 2005, partially offset by the impact of lower volume of $10.0 million and higher raw material costs of $3.1 million.

Other Businesses

Sales from other businesses in the third quarter of 2006 of $31.6 million were 30.3% below the third quarter of 2005 due primarily to the sale of IWA in the second quarter of 2006. Operating profit of $2.0 million for the third quarter of 2006 was $2.8 million below operating profit for third quarter of 2005 due primarily to the absence of operating profit due to the sale of IWA in the second quarter of 2006.

General Corporate

General corporate expense includes costs and expenses that are of a general corporate nature or managed on a corporate basis. These costs primarily represent corporate administration services, costs related to corporate headquarters and management compensation plan expenses related to executives and corporate managers. General corporate expense also includes all amortization expense. General corporate expense of $32.7 million for the third quarter of 2006 increased $7.3 million from the third quarter of 2005 primarily due to $1.4 million of amortization expense primarily related to changes in fair value of intangibles resulting from the Merger, a $2.9 million increase in depreciation expense resulting from a change in the useful life of assets at one of the Company s manufacturing facilities and higher spending related to strategic acquisitions and divestitures and other corporate initiatives of $3.4 million.

Other

Interest expense decreased $6.8 million in the third quarter of 2006, or 23.2%, from the comparable period in 2005. The decrease was due primarily to a reduction of $9.3 million from the early retirement of the 2012 Notes, a reduction of $5.4 million from the early retirement of the

2010 Notes and a reduction of $1.5 million from the September 2005 early retirement of the 7.75% debentures, partially offset by $8.6 million expense from the April 2006 issuance of the 2016 Notes and $1.0 million additional expense from working capital facility agreements.

Other expense, net, of $3.1 million for the third quarter of 2006 increased $1.2 million from $1.9 million for the comparable period of 2005. The increase resulted primarily from a $3.8 million of unfavorable foreign currency translation, a decrease of $1.8 million in interest income and an increase of $0.9 million in costs associated with securitization and other accounts receivable financing programs due primarily to the inclusion of former Great Lakes entities in the securitization program and optimization of benefits under these programs, partially offset by a $2.6 million decrease in minority interest expense, a $2.4 million increase to equity income attributable to the Davis Standard venture and a $0.6 million reduction in post-retirement benefits expense related to the capping of benefits for certain plans acquired as part of the merger with Witco in 1999 related to businesses for which the Company does not have any continuing involvement.

During the third quarter of 2006, the Company recorded a loss on early extinguishment of debt of $24.3 million resulting from the July 2006 retirement of the 2012 Notes. The $24.3 million includes a premium of $19.7 million, a write-off of unamortized deferred costs of $3.8 million and the write-off of unamortized original issue discount of $0.8 million.

During the third quarter of 2005, the Company recorded a loss on early extinguishment of debt of $10.9 million which included a $5.3 million loss from the September 2005 retirement of the 7.75% Notes due 2023 and a $5.6 million loss from the July 2005 replacement of the 2004 domestic credit facility. The $5.3 million for the retirement of the 7.75% Notes included a premium of $3.3 million, a write-off of unamortized deferred costs of $0.7 million and a write-off of a purchase accounting fair value adjustment of $1.3 million. The $5.6 million loss for the replacement of the 2004 domestic credit facility is related to a write-off of unamortized deferred costs.

Income Taxes

The effective tax rate from continuing operations for the third quarter of 2006 was a benefit of 15.7%.

The Company reported an income tax benefit from continuing operations for the third quarter of 2006 of $15.9 million. The tax benefit was adversely affected by a goodwill impairment charge related to the Fluorine business and non-deductible antitrust costs, offset by favorable tax examination settlements and tax legislative changes.

The Company reported income tax expense from continuing operations for the third quarter of 2005 of $28.6 million. The income tax benefit associated with the third quarter 2005 loss from continuing operations was offset by a number of discrete items during the period, including non-deductible in-process research and development write-offs, the Company s election to repatriate foreign earnings under the American Jobs Creation Act of 2004, and deferred tax asset valuation reserves related to certain federal and state income tax credits and state net operating losses.

Discontinued Operations

The third quarter 2006 gain on sale of discontinued operations of $45.9 million (net of income taxes of $21.1 million) related to the sale of the OrganoSilicones business unit to General Electric Company (GE) in July of 2003. This gain represents the recognition of the additional contingent earn-out proceeds as a result of the September 30, 2006 expiration of the contingency.

The third quarter 2005 gain on sale of discontinued operations of $1.4 million (net of income taxes of $3.8 million) was primarily related to the settlement of certain contingencies related to the sale of the OrganoSilicones business unit.

YEAR-TO-DATE RESULTS

Overview

Consolidated net sales of $2.8 billion for the first nine months of 2006 were $738.6 million above net sales of $2.1 billion for the first nine months of 2005. The increase was due to $855.6 million in additional sales resulting from the Merger through the first six months of 2006, $2.4 million from the acquisition of Trace Chemicals and $46.7 million from increased selling prices. These increases were partially offset by $87.7 million of lower unit volume, a $48.3 million decline due to the deconsolidation of the Polymer Processing Equipment business in April of 2005, an $11.9 million decline due to the divestiture of a Urethanes product line, a $13.6 million decline due to the sale of IWA in the second quarter of 2006 and $7.0 million of unfavorable foreign currency translation.

The net loss for the first nine months of 2006 was $26.3 million, or $0.11 per diluted share, as compared to a net loss of $115.5 million, or $0.73 per diluted share, for the first nine months of 2005. The net loss for the first nine months of 2006

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includes a gain on sale of discontinued operations $45.9 million, or $0.19 per diluted share, which represents the recognition of the additional contingent earn-out proceeds that have been earned as of September 30, 2006 related to the OrganoSilicones business unit that was sold in 2003. The loss from continuing operations for the nine months ended September 30, 2006 was $72.2 million, or $0.30 per diluted share, compared to the loss from continuing operations of $91.9 million, or $0.58 per diluted share, for the nine months ended September 30, 2005. This improvement is mainly due to a higher tax benefit during 2006 compared to 2005 principally due to the absence of non-recurring taxes in 2005 on dividends under the Foreign Earnings Repatriation provisions of the 2004 American Jobs Creation Act and the lack of any tax benefit for the write-off in-process research and development related to the Merger, and an increase in other income, net of $11.5 million, which includes a $6.0 million increase in equity income from the Davis Standard joint venture, a $4.3 million favorable settlement of a contractual matter. These increases were partially offset by a 16.0% decrease in operating profit discussed below, an increase in the loss on early extinguishment of debt of $33.0 million principally resulting from the early retirement of the Company s Senior Floating Rate and 9.875% Notes in 2006, and higher interest expense of $3.0 million.

The net loss for the first nine months of 2005 of $115.5 million, or $0.73 per diluted share, include a loss on the sale of discontinued operations of $26.2 million, or $0.17 per diluted share, and earnings from discontinued operations of $2.6 million, or $0.02 per share, related to the Company s Refined Products business that was sold during the second quarter of 2005. The loss from continuing operations for the first nine months of 2005 was $91.9 million, or $0.58 per diluted share and included pre-tax merger related charges for the write-off of in-process research and development of $75.4 million, purchase accounting inventory adjustments of $37.1 million and facility closures, severance and related costs of $24.3 million. In addition, the loss from continuing operations for the first nine months of 2005 included pre-tax charges for losses related to the early extinguishment of debt of $10.9 million and anti-trust costs of $13.2 million.

Gross profit for the first nine months of 2006 was $725.8 million or 25.5% of net sales compared to the first nine months of 2005 of $564.4 million or 26.7% of net sales. Gross profit increased by $161.4 million primarily as a result of profits attributable to the Merger through the first six months of 2006 of $253.6 million and the absence of a $37.1 million purchase accounting inventory write off during the third quarter of 2005. In addition, the Company s business units increased selling prices by $46.7 million and achieved $15.6 million of savings attributable to cost reduction initiatives, which were partially offset by higher raw material and energy costs of $66.0 million, lower unit volume of $48.1 million, $28.6 million of unfavorable manufacturing variances primarily related to lower production volume, the impact of the sale of IWA of $10.7 million, the deconsolidation of the Polymer Processing Equipment business of $9.3 million, higher freight costs of $7.6 million, inventory write-offs of $7.0 million, and unfavorable currency translation of $3.0 million. Increased selling prices in the Flame Retardant, Petroleum Additive, Consumer and Urethanes businesses were partially offset by unfavorable production related manufacturing variances and higher raw material and energy costs. Most of the Company s businesses experienced lower sales volume in the first nine months of 2006 compared to the first nine months of 2005.

In the third quarter of 2006, the Company reclassified certain amounts relating to operations from other (income) expense, net to SG&A, (gain) loss on sale of businesses, net and income related to the sale of Gustafson joint venture in the condensed consolidated statement of earnings. The items reclassified include (a) legacy Witco pension and other post-retirement benefit obligations related to businesses for which the Company has continuing involvement, (b) gains and losses on the sales of businesses which did not meet the criteria to be considered discontinued operations and (c) gains on the sale of equity method investees for which income had previously been reported within operating profit (loss). Although the Company properly classified these items within earnings (loss) from continuing operations, the Company improperly did not include these items as a component of operating profit (loss) in prior periods.

The effect of the 2006 reclassification on the consolidated statements of earnings for the six month period of 2006 and the six and nine month periods of 2005 is as follows:

	Periods Ended in 2006	**Periods Ended in 2005**	
	Six Months	**Six Months**	**Nine Months**
(In thousands)	**June 30,**	**June 30,**	**September 30,**
Increase to SG&A	258	$ 1,362	$ 2,044
(Gain) loss on sale of businesses, net	12,475		
Decrease to operating profit	$ (12,733)	$ (1,362)	$ (2,044)

Change to other (income) expense, net	$ (12,733)	$ (1,362)	$ (2,044)

These reclassifications had no impact on the Company s previously reported income (loss) from continuing operations, income (loss) from discontinued operations, net income (loss) or basic or diluted earnings per share amounts. Additionally, the effect of these changes did not affect the Company s calculations under any debt covenants or for executive compensation plans.

During 2005, the Company reclassified certain immaterial amounts relating to operations from other expense, net to cost of products sold and SG&A in the 2005 condensed consolidated statement of earnings. For the nine months ended September 30, 2005, the Company reclassified other expense, net of $5.1 million to operating profit (loss), which resulted in a reduction in cost of products sold of $0.2 million and an increase in SG&A of $5.3 million.

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Selling, general and administrative expenses of $307.3 million for the first nine months of 2006 increased by $79.5 million over prior year SG&A of $227.8 million. The increase was primarily attributable to a $98.6 million increase resulting from the Merger through the first six months of 2006, partially offset by savings of $17.5 million from merger synergy programs, a decrease of $11.1 million due to the deconsolidation of the Polymer Processing Equipment business and a decrease of $5.0 million due to the sale of IWA and a urethane product line. All segments benefited from the Company s cost savings programs, with Plastic Additives deriving the most significant benefit. Depreciation and amortization of $148.3 million increased by $44.2 million over the first nine months of 2005 primarily due to the Merger and $8.7 million of additional depreciation expense due to the change in useful life of assets at one of the Company s manufacturing facilities. Research and development costs of $49.1 million increased by $12.6 million over the first nine months of 2005, primarily as a result of $11.3 million of additional costs resulting from the Merger through the first six months of 2006.

Facility closures, severance and related costs reflected a $1.9 million pre-tax credit for the first nine months of 2006 as compared to $24.3 million of pre-tax expense for the first nine months of 2005. The 2006 credit included an adjustment to the reserve for unrecoverable future lease costs at the Company s Tarrytown, NY facility of $3.1 million due to subletting additional space at that site, the reversal of $0.8 million of reserves related to the 1998 closure of the Company s Painesville, Ohio facility, the reversal of $0.4 million of reserves related to the Company s Enenco facility that was closed in 2004, and the reversal of $1.0 million of reserves related to the Company s 2004 and 2003 cost savings initiatives, partially offset by $3.4 million of severance costs and asset write-offs resulting from new cost savings initiative implemented in 2006. The 2005 costs of $24.3 million included $19.5 million primarily related to the closure of the Company s facility in Tarrytown, NY and $5.7 million primarily due to severance costs related to the 2004 activity-based restructuring initiative, partially offset by a $1.9 million credit resulting primarily from the settlement of certain issues with the Company s partner in the Enenco joint venture. This settlement resulted in recoveries related to certain disputed items and the Company obtaining 100% ownership of the Enenco joint venture.

The Company incurred antitrust costs of $70.8 million for the first nine months of 2006 compared to $13.2 million during the first nine months of 2005. Year-to-date 2006 antitrust costs included $55.8 million primarily for settlement offers made to certain rubber chemicals, plastic additives, urethanes and indirect case claimants and $15.0 million for legal costs associated with the antitrust investigations and civil lawsuits. The 2005 expense includes $3.9 million for a settlement with EPDM claimants in Canada and $9.3 million for legal costs associated with the antitrust investigations and civil lawsuits.

During the first nine months of 2006, the Company incurred $15.9 million of merger costs compared to $28.1 million during the first nine months of 2005. These non-capitalizable merger costs primarily consist of relocation and moving costs directly attributable to the integration of the two companies and severance costs for former Crompton employees.

The impairment charge for non-current assets of $80.3 million for the first nine months of 2006 includes the impairment of goodwill of $51.9 million, $22.7 million related to the impairment of certain tangible and intangible assets of the Fluorine business and $5.6 million related to the retained long-lived assets of the IWA business, which was sold in May 2006.

Operating profit for the nine months ended September 30, 2006 was $46.9 million as compared to $55.7 million for the nine months ended September 30, 2005. This 16.0% decrease is primarily a result of $66.0 million in higher raw material and energy costs, higher antitrust costs of $57.5 million due primarily to additional settlements throughout 2006, a $51.9 million charge related to the impairment of goodwill, $48.1 million in lower sales volume, $28.6 million in unfavorable manufacturing costs resulting from lower production volumes, $28.3 million for the impairment of long-lived assets, additional depreciation of $8.7 million due to the change in useful life of certain fixed assets, higher freight costs of $7.6 million related to fuel surcharges, inventory write-offs of $7.0 million, the absence of operating profit of $6.5 million due to the sale of the IWA in May 2006, $6.6 million related to the incremental effect of stock option expense, a net increase in the provision for doubtful accounts of $3.7 million primarily resulting from the current economic situation of the agricultural markets in Brazil, and $3.9 million in unfavorable foreign currency translation. These charges were offset in part by $130.2 million of additional operating profit resulting from businesses acquired in the Merger through the first six months of 2006, $46.7 million in higher selling prices, $35.2 million in cost reduction program savings, lower facility closure, severance and related costs of $26.2 million, lower merger costs of $12.2 million, income related to sale of Gustafson joint venture of $1.5 million, the absence of the write-off of in-process research and development of $75.4 million and purchase accounting inventory adjustments of $37.1 million in 2005 related to the Merger.

Plastic Additives

Plastic Additives sales of $1.2 billion for the first nine months of 2006 increased by 52.6% compared to 2005 primarily due to a 52.4% increase in sales resulting from the Merger through the first six months of 2006. Sales volume reductions in the non-flame retardant plastic additives business were primarily the result of customer reactions to late 2005 price increases, which began to rebound in the third quarter of 2006 due to price reductions taken in 2006 and share regain programs. Lower sales and pricing in the non-flame retardant plastic additives business were offset by selling price increases in the flame retardant business. Year to date 2006 operating profit of $90.5 million increased by $32.9 million over the nine months ended September 30, 2005, primarily due to additional operating profit resulting from the Merger of $61.7 million and cost reduction program savings of $18.6 million and $2.0 million for direct costs resulting from Hurricanes Katrina and Rita in 2005, partially offset by lower volume of $10.1 million, higher raw material and energy costs of $20.4 million, higher freight costs of $4.1 million, increased inventory accruals of $6.2 million and unfavorable manufacturing variances of $10.7 million.

Polymers

Polymer sales of $374.8 million through the first nine months of 2006 decreased by 4.2% from the same prior year period due to lower sales volume of 3.0%, a 2.4% decline from the divestiture of a Urethanes product line, unfavorable currency translation of 0.5%, partially offset by higher selling prices of 1.7%. EPDM sales were 15.9% below the first nine months of 2005 due to lower sales volume of 17.2% resulting from overcapacity in the market that caused persistent competitive market pressures coupled with the absence of one-time sales to Asia in 2005. These declines were partially offset by higher selling prices of 1.6%. Urethanes sales were 3.8% higher than in the first nine months of 2005 due to increased volume of 6.7% primarily resulting from increased demand from existing North American customers, geographic penetration into emerging Eastern European markets while higher selling prices, related to the successful pass-through of higher material costs, accounted for an additional 1.8% increase. Gains were partially offset by a 4.1% decrease resulting from a divested product line and unfavorable currency translation of 0.6%. Year-to-date operating profit of $51.8 million decreased by $23.9 million from the comparable 2005 period, principally due to higher energy and material costs of $20.5 million, lower volume of $4.9 million and $5.5 million in unfavorable manufacturing variances related to lower production volume. Reductions were partially offset by higher EPDM and Urethanes pricing of $6.7 million, cost reduction program savings in EPDM and Urethanes of $4.1 million and the net impact of divesting a Urethanes product line of $1.2 million.

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Specialty Additives

Specialty Additives sales of $423.8 million through the first nine months of 2006 were essentially flat compared with the same period in the prior year. Higher sales of 4.0% resulting from product lines acquired in the Merger through the first six months of 2006 and higher net selling prices of 6.0% were offset by lower sales volume of 9.2%. Petroleum Additives sales increased by 20.4% from the prior year due to Merger related sales of 7.6% through the first six months of 2006 and higher selling prices of 12.5% to offset higher raw material and energy costs and as a result of increased demand for our additives. Rubber Chemicals sales decreased by 21.4% from the prior year due to lower sales volume of 19.9%. Declines in sales represented lower selling prices of 1.2% coupled with reductions in volume caused by manufacturing capacity reductions implemented in the prior year and volume losses due to price competition, industry capacity, and customer shutdowns. Year-to-date operating profit of $48.6 million decreased by $27.6 million from the prior year, principally due to higher raw material and energy costs of $22.2 million, the impact of lower sales volume, principally in rubber chemicals, of $13.4 million, unfavorable manufacturing variances of $8.8 million primarily related to lower production volume and unfavorable currency translation of $1.5 million. These declines were partially offset by $25.3 million of higher selling prices, primarily in Petroleum Additives, $3.6 million from cost reduction program savings and $3.6 million in operating profit from businesses acquired in the Merger through the first six months of 2006.

Crop Protection

Crop Protection net sales of $278.4 million for the first nine months of 2006 increased by 2.5% over the first nine months of 2005 primarily due to Merger and acquisition related gains of 10.1% that were partially offset by a 5.4% reduction in volume. Additional declines in net sales were primarily related to declines in volume due to North American weather, competition in the miticides business and economic pressures in Brazilian agricultural markets coupled with lower selling prices of 1.9%. Year to date operating profit of $57.1 million decreased by $17.1 million from the prior year mainly due to lower sales volume of $9.9 million related to North American weather, competition in the miticides markets, economic pressures in Brazilian agricultural markets and unfavorable manufacturing variances related to volume. In addition, the Company increased its provision for doubtful accounts by $4.9 million to cover diminished liquidity in Brazilian agricultural markets. Reductions were partially offset by gains due to the inclusion of $9.3 million in operating profit from product lines acquired in the Merger through the first six months of 2006, cost savings programs of $2.9 million, $1.3 million from the acquisition of the Trace Chemicals and lower raw material and energy costs of $0.6 million.

Consumer Products

Consumer Products had sales of $450.3 million and operating profit of $63.8 million through the first nine months of 2006. Performance through the first six months of 2006 of $317.6 million in sales and $46.7 million in operating profit was related to the Merger. Additional profit of $17.1 million in the third quarter of 2006 was the result of higher value added pricing of $8.5 million, lower spending of $3.2 million related to cost reduction efforts and favorable manufacturing variances related to increased productivity of $3.4 million.

Polymer Processing Equipment

On April 29, 2005, the Company contributed the assets of its Polymer Processing Equipment business into an equity investment and as a result is no longer consolidating the results of this business. The Polymer Processing Equipment business had sales of $48.3 million and an operating loss of $3.0 million through April 29, 2005.

Other Businesses

Other businesses had sales of $111.7 million and operating profit of $10.9 million through the first nine months of 2006. Performance through the first six months of 2006 of $80.1 million in sales and $8.9 million in operating profit was related to the Merger. Lower sales of $13.6 million and lower profit of $3.5 million in the third quarter of 2006 was the result of the absence of operating profit due to the sale of IWA in the second quarter of 2006.

General Corporate

General corporate expense includes costs and expenses that are of a general corporate nature or managed on a corporate basis. These costs primarily represent corporate administration services, costs related to corporate headquarters and management compensation plan expenses related to executives and corporate managers. General corporate expense also includes all amortization expense. General corporate expense of $100.0 million for the first nine months of 2006 increased by $37.7 million compared to the same period in 2005 primarily due to $15.1 million of amortization expense attributable to the Merger, $8.7 million of additional depreciation expense due to a change in the useful life of certain fixed assets,

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$3.8 million of higher spending on strategic and corporate development activities and the remainder primarily due to the Merger.

Other

Interest expense increased $3.0 million in the nine months ended September 30, 2006, or 4.0%, from the comparable period in 2005. The increase was primarily due to $14.9 million of expense resulting from the April 2006 issuance of 2016 Notes, $14.0 million of additional expense incurred in connection with the 7% Notes assumed in the Merger, $6.8 million resulting from higher average borrowings on the Credit Facility at higher market interest rates, $4.4 million for amortization of fair value adjustments relating to environmental liabilities assumed in the Merger and $1.5 million additional expense from working capital facility agreements, partially offset by a $19.9 million reduction from the early retirement of the 2012 Notes, an $8.2 million decrease from the early retirement of the 2010 Notes, a $5.8 million decrease from the September 2005 early extinguishment of 7.75% debentures, a $3.5 million benefit resulting from the amortization of a purchase accounting fair value adjustments relating to debt assumed in the Merger and a $2.3 million decrease due to the elimination of accretion of the discount on antitrust civil liabilities.

Other income, net, of $2.4 million for the nine months ended September 30, 2006 decreased $10.0 million from other expense, net of $7.6 million for the comparable period of 2005. The decrease is primarily attributable to a $6.0 million increase to equity income from the Company s Davis Standard joint venture, a favorable settlement of a contractual matter of $4.3 million in the first quarter of 2006, a $1.9 million reduction in post-retirement benefits expense related to the capping of benefits for certain plans acquired as part of the merger with Witco in 1999 related to businesses for which the Company does not have continuing involvement and a $1.5 million decrease in minority interest expense, partially offset by $2.8 million of unfavorable foreign currency translation and an increase of $1.2 million in costs associated with securitization and other receivable financing programs due primarily to the inclusion of former Great Lakes entities in the securitization program.

During 2006, the Company recorded a loss on early extinguishment of debt of $43.9 million, which includes a $19.5 million loss from the May 2006 retirement of the 2010 Notes and a $24.3 million loss from the July 2006 retirement of the 2012 Notes. The $19.5 million from the retirement of the 2010 Notes includes a premium of $15.8 million and the write-off of unamortized deferred costs of $3.7 million. The $24.3 million loss from the retirement of the 2012 Notes includes a premium of $19.7 million, the write-off of unamortized deferred costs of $3.8 million and the write-off of unamortized original issue discount of $0.8 million.

During 2005, the Company recorded a loss on early extinguishment of debt of $10.9 million which includes $5.3 million loss from the September 2005 retirement of the 7.75% Notes due 2023 and $5.6 million loss from the July 2005 replacement of the 2004 domestic credit facility. The $5.3 million for the retirement of the 7.75% Notes includes a premium of $3.3 million, a write-off of unamortized deferred costs of $0.7 million and a write-off of a purchase accounting fair value adjustment of $1.3 million. The $5.6 million loss for the replacement of the 2004 domestic credit facility is related to a write-off of unamortized deferred costs.

Income Taxes

The income tax benefit from continuing operations for the nine months ended September 30, 2006 was $3.3 million and the income tax expense for the nine months ended September 30, 2005 was $51.3 million. The effective rate of tax for the nine months ended September 30, 2006 was a benefit of 4.4%.

The tax benefit was adversely affected by a number of items for the nine month period ended September 30, 2006. The lower-than-expected tax benefit was attributable to the write off of non-deductible goodwill associated with the Industrial Waters Additive divestiture and goodwill impairment related to the fluorine business, and non-deductible antitrust costs, offset by favorable tax examination settlements and tax legislative changes.

The Company reported income tax expense from continuing operations for the first nine months of 2005 of $51.3 million. The expected income tax benefit associated with the year-to-date loss from continuing operations was completely offset by a number of adverse discrete items during the nine-month period. These one-time items include the non-recognition of a tax benefit of $29.2 million associated with non-deductible in process research and development write-offs, a charge of $19.3 million attributable to the Company s election to repatriate foreign earnings under the American Jobs Creation Act of 2004, and a $16.5 million charge for deferred tax asset valuation reserves related to certain federal and state income tax credits, state net operating losses, and other deferred tax assets.

Discontinued Operations

Discontinued operations for the first nine months of 2006 included a gain on the sale of discontinued operations of $45.9 million (net of income taxes of $21.1 million), related to the sale of the OrganoSilicones business to GE in July of 2003. This gain represents the recognition of the additional contingent earn-out proceeds as a result of the September 30, 2006 expiration of the contingency.

Discontinued operations for the first nine months of 2005 included a loss on the sale of discontinued operations of $26.2 million (net of an income tax benefit of $10.8 million) due to a $28.2 million loss related to the sale of the Company s Refined Products business unit during the second quarter of 2005. The loss was partially offset by a $2.0 million gain from the settlement of certain contingencies related to the July 2003 sale of the Company s OrganoSilicones business unit.

Earnings from discontinued operations for the first nine months of 2005 of $2.6 million (net of income taxes of $1.3 million) represent the net earnings of the Company s Refined Products business, which was sold in June 2005. Earnings from discontinued operations do not include any allocation of general overhead expense.

CRITICAL ACCOUNTING ESTIMATES

The Company s condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. The Company s estimates are based on historical experience and currently available information. Management s Discussion and Analysis of Financial Condition and Results of Operations and the Accounting Policies footnote in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 describe the critical accounting estimates and accounting policies used in preparation of the consolidated financial statements. Actual results in these areas could differ from management s estimates. With the exception of the recoverability of long-lived assets and goodwill that is discussed below, and the accounting for stock based compensation that is discussed in the Accounting Developments section below, there have been no significant changes in the Company s critical accounting estimates during the first nine months of 2006.

Recoverability of Long-Lived Assets and Goodwill

The Company evaluates the recoverability of the carrying value of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Under such circumstances, the Company assesses whether the projected undiscounted cash flows of its businesses are sufficient to recover the existing unamortized cost of its long-lived assets. If the undiscounted projected cash flows are not sufficient, the Company calculates the impairment amount by discounting the projected cash flows using its weighted average cost of capital. The amount of the impairment is written-off against earnings in the period in which the impairment has been determined.

The Company tests the recoverability of goodwill of each of its reporting units on an annual basis as of July 31, or sooner if events occur or circumstances change, by comparing the net book value to the estimated fair value of each of its reporting units to determine if there is a potential impairment issue. The fair value is estimated based on discounted projected cash flows. In estimating the discounted projected cash flows, the Company utilizes estimated long-term revenue and cash flow forecasts developed as part of its planning process, as well as assumptions of terminal value, together with its weighted average cost of capital, to determine fair value. If the fair value is not sufficient to cover the carrying value of the reporting unit, the Company calculates the goodwill impairment amount related to that reporting unit in accordance with Statement 142, Goodwill and Other Intangible Assets. Any impairment is recorded to earnings in the period in which the amount has been determined.

The Company s cash flow projections used to estimate the fair value of its reporting units are based on subjective estimates, the most significant of which are selling prices and their relationship to raw material costs, sales volumes and cost reduction or savings benefits. Deviations of actual results from the Company s estimates, as well as a change in the discount rate utilized, could impact the fair value estimates used to determine whether an impairment exists. Based on the fair value estimates used in July 2006 to test goodwill for impairment in accordance with Statement 142, the Company concluded that an impairment of $51.9 million existed for its Fluorine business at July 31, 2006. The Company concluded that no impairment existed in any of its other reporting units at July 31, 2006.

Although the Company believes that its projections reflect its best estimates of the future performance of its reporting units, changes in estimates of selling prices, raw material costs, cost reduction or savings benefits and sales volume used to project the cash flows for its reporting units could have an impact on the fair value used to test goodwill of the reporting unit for impairment. Any increases in the estimated future cash flows of its reporting units would have had no impact on the carrying value of that reporting unit. However, a decrease in estimated future cash flows could require the Company to allocate the fair value of the reporting unit among the assets and liabilities of that reporting unit for the purpose of determining whether recognition of a goodwill impairment charge was required.

The effect of cost saving initiatives, process improvements and new technology achievements are currently the most sensitive factors affecting the operating results for the non-flame retardant plastic additives reporting unit. If the benefits of these initiatives were assumed to be 50% lower than forecasted, the carrying value of the reporting unit would exceed the fair value estimate by approximately $80 million. If the Company was unable to obtain any benefit from these initiatives, the carrying value of the reporting unit would exceed the fair value estimate by approximately $200 million. In either case, the Company would then be required to allocate the fair value among the assets and liabilities of the reporting unit for purposes of determining whether recognition of a goodwill impairment would be required.

Additionally, the relationship of raw material price increases to selling price increases coupled with the Company s ability to regain market share could cause actual results to differ significantly from the projected amounts. The Company has factored into their forecasts a terminal value which accounts for this sensitivity. If the terminal value growth factor used in the non-flame retardant plastic additives projections were assumed to be 1% lower, the carrying value of the reporting unit would exceed the fair value estimate by approximately $50 million and the Company would then determine whether recognition of a goodwill impairment charge would be required. As of July 31, 2006, the Company has not factored in any improvements to future cash flow projections that might be made to the reporting unit as a result of acquisitions or expansion of product lines into target regions.

If the Company had been required to recognize a goodwill impairment charge relating to the non-flame retardant plastic additives reporting unit, there would not have been a direct impact on the Company s liquidity and capital resources because impairment charges are non-cash losses that do not impact the leverage or interest coverage ratios under the Company s domestic credit facility.

The Company continually monitors and evaluates business and competitive conditions that affect its operations and reflects the impact of these factors in its financial projections. If permanent or sustained changes in business and competitive conditions occur, they can lead to revised projections that could potentially give rise to impairment charges.

ACCOUNTING DEVELOPMENTS

In November 2004, the FASB issued Statement No. 151, Inventory Costs an Amendment of ARB No. 43, Chapter 4. Statement No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage, requiring these items be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company prospectively adopted the provisions of Statement No. 151 on January 1, 2006. The adoption of Statement No. 151 changed the timing of when certain manufacturing variances will be recognized in consolidated earnings. The adoption of Statement No. 151 did not have a material impact on the Company s consolidated earnings and financial position during the first nine months of 2006.

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (FASB 123(R)), which replaced Statement No. 123, Accounting for Stock-Based Compensation (FASB 123) and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). FASB 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value, beginning with the first annual period after June 15, 2005. The pro forma disclosures previously permitted under FASB 123 are no longer an alternative to financial statement recognition. In March 2005, the SEC Staff issued Staff Accounting Bulletin 107, Share-Based Payment (SAB 107), which expresses views of the SEC Staff about the application of FASB 123(R). Effective January 1, 2006, the Company adopted FASB 123(R) using the modified prospective method. Under the modified prospective method, the compensation cost for all new awards and awards modified, repurchased or cancelled after the date of adoption of FASB 123(R), as well as the unrecognized compensation cost of unvested awards as of the date of adoption are recognized in earnings based on the grant-date fair value of those awards. As a result of the provisions of FAS 123(R) and SAB 107, the Company estimates that compensation expense related to share-based payments to employees will reduce 2006 diluted earnings per share by approximately $0.02 per share. However, the Company s assessment of the estimated compensation expense is affected by its stock price as well as

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assumptions regarding a number of complex and subjective variables and the related tax impact. These variables include, but are not limited to, the grant-date fair value of any new awards, the volatility of the Company s stock price and employee stock option exercise behavior. The Company will recognize compensation cost for stock-based awards issued after January 1, 2006 on a straight-line basis over the requisite service period for each separately vesting tranche, as if multiple awards were granted. As a result of adopting FASB 123(R), on January 1, 2006, incremental stock-based compensation expense recognized was $2.4 million ($1.5 million after-tax and less than $0.01 per basic and diluted earnings per share) for the three months ended September 30, 2006 and was $6.6 million ($4.1 million after-tax and $0.02 per basic and diluted earnings per share) for the nine months ended September 30, 2006, primarily attributable to the Company s stock option program.

In March 2006, the FASB issued Statement No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140. Statement No. 156 provides additional guidance for recognizing servicing assets and liabilities, and is effective for fiscal year s beginning after September 15, 2006. Statement No. 156 amends Statement No. 140 to require that all separately recognized servicing assets and liabilities in accordance with Statement No. 140 be initially measured at fair value, if practicable. Furthermore, Statement No. 156 permits, but does not require, fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. Statement No. 156 is not expected to have any impact on the Company s financial position, results of operation or cash flows.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in tax positions and requires that a Company recognize in its financial statements the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal year s beginning after December 15, 2006. The Company is currently in the process of evaluating the impact of adopting FIN 48 on its results of operations.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, which defined fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of Statement No. 157 are effective as of the beginning of the Company s 2008 fiscal year. The Company is currently in the process of determining the impact of adopting Statement No. 157 on its financial position or its results of operations.

In September 2006, the FASB issued Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends Statement No. 87, Employers Accounting for Pensions and Statement No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under Statement No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under Statement No. 87 and Statement No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive loss, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date, the date at which the plan assets are measured, is required to be the Company s fiscal year end. Statement No. 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of Statement No. 158 is expected to reduce the Company s stockholders equity by approximately $20 million, net of tax, and is not expected to materially affect the results of operations.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108) to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that the Company quantify misstatements based on their impact on each of the Company s financial statements and related disclosures. SAB 108 is effective as of the end of fiscal year 2006, allowing a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material, but are material under the guidance in SAB 108. The Company is currently evaluating the impact of adopting SAB 108 on its financial position and results of operations.

OUTLOOK

The Company will continue its strategy of setting prices that reflect the value in use of the Company s products and offset as much as possible increases in raw material and energy costs. In doing so, the Company is committed to working with customers to achieve its targeted operating profit margin and, in the case of non-flame retardant plastic additives, to recapture profitable volume lost in the second half of 2005. This will be critical to maintaining and improving operating profit margins as increases in raw material and energy costs are expected to continue through 2006. Increases to raw material and energy costs are anticipated due, in large part, to volatility in the worldwide pricing of hydrocarbon based and precious metal raw materials and natural gas, which the Company uses as raw materials.

Given the expectations with respect to selling prices and raw material and energy costs, the Company anticipates that the fourth quarter of 2006 will reflect continued strength in the flame retardant, urethanes products, Petroleum Additives and Consumer Products segments over the fourth quarter of 2005. Offsetting anticipated strong performance in those segments, the Company currently anticipates continued weakness in demand and pricing in its EPDM and rubber additives product lines.

In response to expectations noted above, the Company is actively working to reduce costs within its control. The Company will assess how overall decline in demand is affecting manufacturing overhead costs and evaluate ways to control those costs, including the evaluation of manufacturing operations to identify any potential opportunities to optimize those operations and continue to work closely with its customers to maximize profitable volumes.

Based on the results through the first nine months of 2006, the Company anticipates the following for the full year of 2006:

- As announced on November 2, 2006, a non-binding letter of intent has been signed by the Company to sell its EPDM business and certain assets of its rubber chemicals business. It is the Company s expectation that the details of the transaction will be finalized by December 31, 2006. Until such time as the transaction is finalized and any regulatory requirements are met, the EPDM and rubber chemicals product lines are expected to show results significantly below those in 2005.

- Expectations for the Crop Protection segment for 2006 will be lower than 2005 on a full year basis primarily due to lower sales volume due to North American weather, competition in the miticides markets, economic pressures in Brazilian agricultural markets and unfavorable manufacturing variances related to volume.

- Savings of approximately $80 million to $90 million are expected from opportunities identified as a result of the Merger, realized equally between cost of products sold and SG&A.

- Continued increase in raw material and energy costs of approximately $100 million over 2005.

- Depreciation and amortization of approximately $190 million, which includes approximately $10 million of additional depreciation due to a change in useful life of assets related to the potential sale of a Plastic Additives manufacturing facility.

- Overall interest expense of approximately $105 million reflects a reduction during the second half of 2006 due to the additional pay-down of high yield debt.

- Stock option expensing pursuant to FASB 123(R) to increase stock compensation by approximately $9 million.

- Inflationary increases of $30 million in base salary and outside service expenditures.

- Lower planned production related to the Company s desire to reduce inventory levels and the decline in demand, which will result in approximately $15 million in unabsorbed fixed production costs.

- Payments for merger, facility closures, severance and related costs of approximately $50 to $60 million.

- Dividends of approximately $48 million, which reflects the increase for the full year impact of the former Great Lakes common shares converting to shares of the Company s common stock.

- Antitrust settlement payments are anticipated to range between approximately $110 to $130 million, excluding legal fees.

- Continued focus on the divesture of non-core businesses and assets, which may cause a reduction in revenues, cost of products sold, depreciation and SG&A expenses. Negotiations for the divesture of non-core businesses requires concessions of both the buyer and seller on certain terms; therefore, the impact of these divestures can not be completely assessed until the actual terms of the negotiations are final.

The Company continues to focus on cost reduction, pricing, and portfolio realignment initiatives to improve the Company s gross profit and operating income margins. The Company is utilizing Six Sigma, Lean Manufacturing initiatives and outside consultants to assist in identifying and implementing process improvements and cost reductions.

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FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. These forward-looking statements are identified by terms and phrases such as anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will and similar expressions and i
assumptions and relate to our future prospects, developments and business strategies.

Factors that could cause our actual results to differ materially from those expressed or implied in such forward-looking statements include, but are not limited to:

- general economic conditions;
- significant international operations and interests;
- the outcome and timing of antitrust investigations and related civil lawsuits to which we are subject;
- the ability to obtain increases in selling prices;
- the ability to retain sales volumes in the event of increasing selling prices;
- the ability to absorb fixed cost overhead in the event of lower volumes;
- pension and other post-retirement benefit plan assumptions;
- the ability to recover lost volume in our non-flame retardant plastic additives business or execute other portions of the recovery plan for this business;
- the ability to sustain our volumes or operating margins in our rubber additives business if new competitors or additional industry capacity develops in Asia;
- the ability to sustain profitability in our crop protection business due to new generic competition, the failure to secure new products and technology or changes in certain Brazilian crop markets;
- the ability to sell methyl bromide due to regulatory restrictions;
- energy and raw material prices, availability and quality;
- production capacity;
- changes in interest rates and foreign currency exchange rates;
- changes in technology, market demand and customer requirements;
- the enactment of more stringent environmental laws and regulations;
- the ability to achieve anticipated benefits from our merger with Great Lakes Chemical Corporation including cost savings and synergies;

- the ability to realize expected cost savings under our cost-reduction initiatives, including Six Sigma and Lean manufacturing;

- the ability to successfully execute our portfolio divestiture plan;

- the ability to reduce our indebtedness levels;

- the ability of the Company to obtain anticipated benefits from projects currently in the research and development stage;

- the ability to achieve the integration of the former Great Lakes Chemical Corporation information systems and certain international systems with our existing enterprise-wide information systems; and

- other risks and uncertainties detailed in filings with the Securities and Exchange Commission by Chemtura or its predecessor companies.

These statements are based on the Company s estimates and assumptions and on currently available information. The forward-looking statements include information concerning the Company s possible or assumed future results of operations, and the Company s actual results may differ significantly from the results discussed. Forward-looking information is intended to reflect opinions as of the date this Form 10-Q was filed and such information will not necessarily be updated by the Company.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to Item 7A Quantitative and Qualitative Disclosures About Market Risk and the Derivative Instruments and Hedging Activities Note to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. Also refer to the Derivative Instruments and Hedging Activities footnote included in the notes to the condensed consolidated financial statements (unaudited) included in this Form 10-Q.

The fair market value of long-term debt is subject to interest rate risk. The Company s long-term debt amounted to $1,069 million at September 30, 2006. The fair market value of such debt as of September 30, 2006 was $1,098 million, which has been determined primarily based on quoted market prices.

The Company uses price swap contracts as cash flow hedges to convert a portion of its forecasted natural gas purchases from variable price to fixed price purchases. These contracts are designated as hedges of a portion of the Company s forecasted natural gas purchases for a rolling two-year period. These contracts involve the exchange of payments over the life of the contracts without an exchange of the notional amount upon which the payments are based. The differential paid or received as natural gas prices change is recognized as an adjustment to cost of products sold. The fair value of the contracts at September 30, 2006, resulted in an unrealized loss of $11.8 million, which was recorded as a component of accumulated other comprehensive loss, net of tax of $4.5 million. Sensitivity analysis is a technique used to evaluate the impact of hypothetical market value changes. A hypothetical ten percent increase in the cost of natural gas at September 30, 2006 would result in an increase in the fair market value of the outstanding derivatives of $5.3 million to an unrealized loss of $6.6 million; conversely, a hypothetical ten percent decrease in the cost of natural gas would result in a decrease in the fair market value of the outstanding derivatives of $5.3 million to an unrealized loss of $17.1 million.

To manage the mix of fixed and floating rate debt, the Company, from time to time, enters into interest rate swap agreements under which it agrees to exchange various combinations of fixed and/or variable interest rates based on agreed-upon notional amounts that are supported by the Company s current debt positions. The Company had fixed-to-variable interest rate swaps to manage interest expense on $125 million of the $400 million 7% fixed rate Notes due 2009. In May 2006, the Company terminated the interest rate swaps resulting in a loss of $2.8 million. The loss upon terminating the swaps was recorded as an adjustment to the carrying amount of debt. The Company will amortize the adjustment to the carrying amount of the debt to interest expense over the remaining life of the $400 million fixed rate debt.

There have been no other significant changes in market risk since December 31, 2005.

ITEM 4. Controls and Procedures

(a) *Disclosure Controls and Procedures*

As of September 30, 2006, the Company s management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), have conducted an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report in ensuring that all material information required to be filed in this Quarterly Report on Form 10-Q has been made known to them in a timely manner.

(b) *Changes in Internal Control Over Financial Reporting*

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

ANTITRUST INVESTIGATIONS AND RELATED MATTERS

Antitrust Investigations

Rubber Chemicals

On May 27, 2004, the Company pled guilty to a one-count information charging the Company with participating in a combination and conspiracy to suppress and eliminate competition by maintaining and increasing the price of certain rubber chemicals sold in the United States and elsewhere during the period from July 1995 to December 2001. The U.S. federal court imposed a fine of $50.0 million, payable in six annual installments, without interest, beginning in 2004. In light of the Company s cooperation with the U.S. Department of Justice (the DOJ), the court did not impose any period of corporate probation. On May 28, 2004, the Company pled guilty to one count of conspiring to lessen competition unduly in the sale and marketing of certain rubber chemicals in Canada. The Canadian federal court imposed a sentence requiring the Company to pay a fine of CDN $9.0 million (approximately U.S. $7 million), payable in six annual installments, without interest, beginning in 2004. The Company paid (in U.S. dollars) $2.3 million in 2004, $2.3 million in 2005, and $7.0 million in 2006 in cash, for the U.S. and Canadian fines. Remaining cash payments for the U.S. and Canadian fines are expected to equal (in U.S. dollars) approximately $11.6 million in 2007; $16.3 million in 2008; and $18.5 million in 2009. The Company recorded a pre-tax charge of $45.2 million as a component of operating profit (loss) for its fiscal year ended December 31, 2003, as a reserve for the payment of the U.S. and Canadian fines, which represented the present value of the expected payments. The Company had reserves related to these settlements of $11.6 million and $6.5 million in accrued expenses and $30.5 million and $40.3 million in other liabilities at September 30, 2006 and December 31, 2005, respectively.

The Company and certain of its subsidiaries were previously the subject of a coordinated civil investigation by the European Commission (the EC) with respect to the sale and marketing of rubber chemicals. On December 21, 2005, the Company announced that the EC imposed a fine of Euro 13.6 million (approximately U.S. $16 million) on the Company in connection with the EC s rubber chemicals investigation. The amount of the fine reflects the EC s maximum leniency of a 50 percent reduction in the fine, resulting from the Company s continual cooperation with the EC throughout its investigation. In December 2005, the Company recorded a pre-tax charge of $16.1 million for the EC fine, which is included in accrued expenses on the Company s condensed consolidated balance sheets at December 31, 2005. The Company paid this fine in April 2006. As of the date of this periodic report on Form 10-Q, there are no remaining governmental investigations of the Company with respect to its sale and marketing of rubber chemicals.

Other Product Areas

The Company and certain of its subsidiaries are subjects of, and continue to cooperate in, coordinated criminal and civil investigations being conducted by the DOJ, the Canadian Competition Bureau and the EC (collectively, the Governmental Authorities) with respect to possible antitrust violations relating to the sale and marketing of certain other products. The Governmental Authorities are each conducting investigations with respect to various classes of heat stabilizers; nitrile rubber; and, in the case of the DOJ and the Canadian Competition Bureau, urethanes and urethane chemicals. Such investigations concern anticompetitive practices, including price fixing and customer or market allocations, undertaken by the Company and such subsidiaries and certain of their officers and employees. The Company and its subsidiaries that are subject to the investigations have received from each of the Governmental Authorities verbal or written assurances of conditional amnesty from prosecution and fines. The EC has granted conditional amnesty with respect to certain classes of heat stabilizers. The assurances of amnesty are conditioned upon several factors, including continued cooperation with the Governmental Authorities. The Company is actively cooperating with the Governmental Authorities regarding such investigations.

Internal Investigation

The Company has completed its internal investigation of the Company s business and products to determine compliance with applicable antitrust law and with the Company s antitrust guidelines and policies. During the course of its internal investigation, the Company strengthened its training and compliance programs and took certain actions with respect to certain employees, including termination of employment and other disciplinary actions.

Impact upon the Company

The Company does not expect the previously described resolution of the rubber chemicals investigations by the United States, Canada and the EU to have a material adverse effect on its cash flows. However, the resolution of any other possible antitrust violations against the Company and certain of its subsidiaries and the resolution of any civil claims now pending or hereafter asserted against them may have a material adverse effect on the Company s financial condition, results of operations, cash flows or prospects. No assurances can be given regarding the outcome or timing of these matters.

Civil Lawsuits

Except for those actions indicated as being subject to a settlement agreement, dismissed by the applicable court or as otherwise provided, the actions described below under Civil Lawsuits are in early procedural stages of litigation. Although the actions described below have not had a material adverse impact on the Company, we cannot predict the outcome of any of those actions. The Company will seek cost-effective resolutions of the various pending and threatened legal proceedings against the Company; however, the resolution of any civil claims now pending or hereafter asserted against the Company or any of its subsidiaries could have a material adverse effect on the Company s financial condition, results of operations or cash flows. Except for direct purchaser claims with respect to rubber chemicals, ethylene propylene diene monomer (EPDM), nitrile rubber and urethanes, the Company has not recorded a charge for potential liabilities and expenses in connection with the civil claims not subject to any settlement agreement, because such costs cannot be reasonably estimated at this time.

At September 30, 2006 and December 31, 2005, the Company had reserves related to the civil lawsuits described below of $96.5 million and $57.6 million, respectively, in accrued expenses on its condensed consolidated balance sheets for the US and Canadian civil lawsuits. We review our reserves for civil lawsuits on a quarterly basis. We also adjust our reserves quarterly to reflect our current best estimates. We increased our reserves during the first three quarters of 2006 to reflect the increase in actual settlement offers in the direct purchaser, EPDM, nitrile rubber and urethane matters, and our settlement of the rubber chemicals matters.

U.S. Civil Antitrust Actions

Partially Terminated Global Settlement Agreement. On January 11, 2005, the Company and plaintiff class representatives entered into a Settlement Agreement (the Global Settlement Agreement) that was intended to resolve, with respect to the Company, three consolidated direct purchaser class action lawsuits filed against the Company, its subsidiary Uniroyal Chemical Company, Inc., now known as Chemtura USA Corporation (referred to as Uniroyal for purposes of the description of the Company s civil lawsuits), and other companies, by plaintiffs on behalf of themselves and classes consisting of all persons or entities who purchased EPDM, nitrile rubber and rubber chemicals, respectively, in the United States directly from one or more of the defendants or any predecessor, parent, subsidiary or affiliates thereof, at any time during various periods, with the earliest commencing on January 1, 1995. The complaints in the consolidated actions principally alleged that the defendants conspired to fix, raise, maintain or stabilize prices for EPDM, nitrile rubber and rubber chemicals, as applicable, sold in the United States in violation of Section 1 of the Sherman Act and that this caused injury to the plaintiffs who paid artificially inflated prices for such products as a result of such alleged anticompetitive activities. The Global Settlement Agreement provided that the Company would pay a total of $97.0 million, consisting of $62.0 million with respect to rubber chemicals, $30.0 million with respect to EPDM and $5.0 million with respect to nitrile rubber, in exchange for the final dismissal with prejudice of the foregoing three lawsuits as to the Company and a complete release of all claims against the Company set forth in the lawsuits.

In accordance with its rights under the Global Settlement Agreement, the Company terminated those parts of the settlement covering rubber chemicals and EPDM following the exercise of opt out rights by certain potential members of the applicable classes. As a result of the Company s partial termination of the Global Settlement Agreement, the consolidated direct purchaser class action lawsuit relating to EPDM continues to proceed in federal district courts. With respect to the rubber chemical portion of the claims a settlement was reached on October 2, 2006 which settlement is subject to court approval. This settlement is described below under Rubber Chemicals. The nitrile rubber portion of the Global Settlement Agreement has been approved by the United States District Court for the Western District of Pennsylvania.

ParaTec Elastomers Cross-Claims. A defendant in the class action lawsuit relating to nitrile rubber, ParaTec Elastomers LLC, a former joint venture in which the Company previously owned a majority interest but now has no interest, has asserted cross claims against the Company and its subsidiary Uniroyal in this class action, seeking indemnification for settlements that ParaTec Elastomers LLC has entered into and damages that ParaTec Elastomers LLC has allegedly suffered or may suffer as a result of the Company s actions, including the Company s alleged failure to obtain immunity for ParaTec Elastomers with respect to the EC s investigation of the sale and marketing of nitrile rubber. The ParaTec Elastomers complaint seeks damages of unspecified amounts, including attorneys fees and punitive damages with respect to certain of the alleged causes of action, injunctive relief, pre- and post-judgment interest, costs and disbursements and such other relief as the court deems just and proper. On August 6, 2004, the Company filed a motion to dismiss the cross claims, or in the alternative to compel arbitration. On September 29, 2005, the motion to dismiss was granted with respect to the plaintiff s claims of violation of the Connecticut Unfair Trade Practices Act, breach of contract, fraud and promissory estoppel. The motion to dismiss was denied with respect to the plaintiff s claims for contractual indemnification pursuant to the ParaTec Elastomers LLC Agreement, breach of fiduciary duty and breach of covenant of good faith and fair dealing. In addition, the court denied the Company s motion to compel arbitration. The Company has appealed the denial of its motion to compel arbitration. The

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Company believes these claims are without merit, as they relate to conduct occurring exclusively after the ParaTec Elastomers was sold. No accrual has been made because we believe the likelihood of any loss is remote.

Remaining Direct and Indirect Purchaser Lawsuits. The Company, individually or together with its subsidiary Uniroyal, and other companies, continues to be or has become a defendant in certain direct and indirect purchaser lawsuits filed in federal courts during the period from May 2004 through January 2006 and in certain state court antitrust class action lawsuits filed in state courts during the period from October 2002 to January 2006 involving the sale of rubber chemicals, EPDM, polychloroprene, nitrile rubber, plastic additives, and urethanes and urethane chemicals.

The complaints in these actions (as further described below) principally allege that the defendants conspired to fix, raise, maintain or stabilize prices for rubber chemicals, EPDM, polychloroprene, nitrile rubber, plastic additives, or urethanes and urethane chemicals, as applicable, sold in the United States in violation of Section 1 of the Sherman Act or in violation of certain antitrust statutes and consumer protection and unfair or deceptive practices laws of the relevant jurisdictions and that this caused injury to the plaintiffs who paid artificially inflated prices for such products as a result of such alleged anticompetitive activities. With respect to the complaints relating to the sale of polychloroprene (as further described below), although the Company does not sell or market polychloroprene, the complaints allege that the Company and producers of polychloroprene conspired to raise prices with respect to polychloroprene and the other products included in the complaint collectively in one conspiracy. In each of the foregoing actions, the plaintiffs seek, among other things, treble damages of unspecified amounts, costs (including attorneys fees) and injunctive relief preventing further violations or the improper conduct alleged in the complaint.

Rubber Chemicals. The Company has entered into a settlement agreement in the direct federal rubber chemical cases previously subject to the Global Settlement Agreement. The Company and Uniroyal remain defendants in a direct federal purchaser lawsuit filed in the United States District Court, Middle District of Tennessee and subsequently transferred to the United States District Court, Northern District of California.

The Agreement with class counsel in the direct federal rubber chemical case provides the Company will pay $51 million to resolve the class claims. This agreement, combined with settlements with other entities, means that Chemtura has now resolved over 90 percent of its exposure for United States direct purchaser rubber chemicals claims. The $51 million settlement, which will be paid in the fourth quarter, is subject to court approval. In anticipation of this settlement, $12.2 million was added to already existing rubber chemicals reserves in the third quarter of 2006.

The remaining direct federal lawsuit was filed on June 29, 2006, in the United States District Court, Middle District of Tennessee by Bridgestone Americas Holding, Inc, Bridgestone Firestone North American Tire, LLC, Bandag, Incorporated, and Pirelli Tire, LLC with respect to purchases of rubber chemicals from one or both of the defendants. This action has been transferred to the United States District Court, Northern District of California.

The Company and certain of its subsidiaries also remain defendants in seven pending indirect putative class action lawsuits for alleged violations of state law filed in state courts in California, Florida, Massachusetts, Pennsylvania, Tennessee and West Virginia between October 2002 and March 2004. Plaintiffs in the California lawsuit were denied class certification on January 30, 2006 and are appealing that decision. Two of these lawsuits are multi-product lawsuits and are described under the heading Multi-Product Lawsuits below. The Company and its defendant subsidiaries have filed motions to dismiss with respect to six of these seven pending lawsuits. Certain motions to dismiss remain pending, and other motions to dismiss have been denied by the applicable court, which are being, or will be, appealed by the Company and its defendant subsidiaries.

EPDM. With respect to EPDM, the Company, Uniroyal and other companies are defendants in four direct federal purchaser lawsuits, including the consolidated EPDM direct purchaser lawsuit previously subject to the Global Settlement Agreement. Two of these lawsuits are pending in the United States District Court, District of Connecticut and the United States District Court, Northern District of New York and were filed between November 2003 and June 2005. The Pennsylvania action has been transferred, and the New York action has been conditionally transferred, to the United States District Court, District of Connecticut. The remaining two direct federal purchaser lawsuits are multi-product lawsuits and are described separately under the heading Multi-Product Lawsuits below. The Company has settled claims in one direct federal purchaser lawsuit previously pending in the United States District Court, Eastern District of Pennsylvania.

The Company and certain of its subsidiaries also remain defendants in fourteen pending indirect putative class action lawsuits for alleged violations of state law with respect to EPDM filed in state courts in California, Florida, Iowa, Kansas, Nebraska, New Mexico, New York, North Carolina, Pennsylvania and Vermont between October 2003 and February 2005. Four of these lawsuits are multi-product lawsuits and are described under the heading Multi-Product Lawsuits below.

Nitrile Rubber. With respect to nitrile rubber, the Company, Uniroyal and other companies are defendants in two multi-product direct purchaser lawsuits involving nitrile rubber, which are described separately below. The Company and certain

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of its subsidiaries also remain defendants in seven pending indirect putative class action lawsuits for alleged violations of state law filed in state courts in California, Florida, Massachusetts, Nebraska, New York, Pennsylvania, Tennessee and Vermont between May 2004 and February 2005. Four of these lawsuits are multi-product lawsuits and are described under the heading Multi-Product Lawsuits below. The Company has settled claims with respect to six indirect putative class action lawsuits previously pending in California.

Plastics Additives. With respect to plastic additives, the Company and other companies are defendants in one federal indirect purchaser lawsuit filed in the United States District Court, Eastern District of Pennsylvania in August 2005. The Company remains a defendant in two pending indirect putative class action lawsuits for alleged violations of state law filed in state courts in California and Nebraska between May 2004 and February 2005.

Urethanes. With respect to urethanes, the Company, Uniroyal and other companies are defendants in a consolidated federal direct purchaser class action lawsuit filed in November 2004 in the United States District Court, District of Kansas. This action consolidates twenty-six direct purchaser class action lawsuits previously described in the Company s prior periodic reports filed with the Securities and Exchange Commission. The Company, Uniroyal and other companies are also defendants in one direct multi-product lawsuit involving urethanes described separately under the heading Multi-Product Lawsuits below.

With respect to Urethanes, the Company remains a defendant in seventeen pending indirect putative class action lawsuits for alleged violations of state law filed in California, Florida, Massachusetts, New York, Pennsylvania and Tennessee, between March 2004 and October 2005. Four of these lawsuits are multi-product lawsuits and are described under the heading Multi-Product Lawsuits below.

Multi-Product Lawsuits. The Company, Uniroyal and other companies are defendants in two federal direct purchaser lawsuits which are multi-product lawsuits for alleged violations of state law. The first lawsuit was filed on November 16, 2004, in the United States District Court, Northern District of Ohio, by Parker Hannifin Corporation and PolyOne Corporation with respect to purchases of EPDM, nitrile rubber and polychloroprene from one or more of the defendants. This action has been transferred to the District of Connecticut. Parker Hannifin Corporation s claims with respect to the nitrile rubber portion of this suit have been settled. All of PolyOne s claims with respect to this lawsuit have been settled. In December 2005, the Company and Uniroyal entered into a settlement agreement with Goodyear Tire & Rubber Company with respect to purchases of EPDM and polychloroprene. This settlement agreement also resolves the federal direct purchaser lawsuit by Goodyear Tire & Rubber Company against the Company with respect to rubber chemicals, as described above.

The second lawsuit was filed on February 10, 2005 in Massachusetts state court. This lawsuit was subsequently removed to the United States District Court, District of Massachusetts. The claims in this lawsuit relate to purchases of any product containing rubber and urethane products, defined to include EPDM, nitrile rubber, urethanes.

The Company, its subsidiary Uniroyal, and other companies are defendants in four pending indirect putative purchaser class action lawsuits in four states that each involve multiple products. Two of the outstanding multi-product lawsuits relate to purchases of any product containing rubber and urethane products, defined to include rubber chemicals, EPDM, nitrile rubber and urethanes. The remaining two outstanding multi-product lawsuits relate to purchases of any product containing rubber and urethane products, defined to include EPDM, nitrile rubber, urethanes. An indirect purchaser class action previously pending in Massachusetts state court has been removed to the United States District Court, District of Massachusetts and is described above.

At September 30, 2006 and December 31, 2005, the Company had remaining reserves of $90.0 million and $51.4 million, respectively, included in accrued expenses on its condensed consolidated balance sheets relating to the U.S. Global Settlement Agreement and the remaining U.S. direct and indirect purchaser lawsuits. These reserves cover all direct and indirect purchaser antitrust claims in the rubber, EPDM, plastics additives, urethanes and nitrile rubber civil cases in the United States, for which a reasonable estimate can be made. The accrual represents the Company s estimate of probable liability on these matters. The Company periodically reviews its accruals as additional information becomes available, and may adjust its accruals based on later occurring events. As none of these claims have been reduced to judgment, or are otherwise subject to existing settlements unrelated to the Global Settlement Agreement, the Company is unable to estimate the reasonable possible loss in excess of the accrual, but the aggregate amount claimed in the various matters subject to the accrual is materially in excess of the accrual. The remaining direct and indirect lawsuits not covered by the accrual are in the early procedural phase of litigation, and therefore, the Company cannot make any reasonable estimate of the probable or reasonably possible liability associated with these cases.

Canadian Civil Antitrust Actions

EPDM. The Company and the plaintiffs in three previously disclosed Canadian class action lawsuits relating to EPDM have entered into a settlement agreement, dated as of September 19, 2005 (the EPDM Settlement Agreement), that is intended to resolve, with respect to the Company and its defendant subsidiaries, the three lawsuits filed in Canada.

The EPDM Settlement Agreement required that the Company pay CDN $4.5 million (approximately U.S. $3.9 million) to the class claimants in Canada covering all direct and indirect purchasers of EPDM during the class period of January 1, 1997 to December 31, 2001 in exchange for the final dismissal with prejudice of the lawsuit as to the Company and its subsidiary defendants and a complete release of all claims against the Company and its subsidiary defendants set forth in the lawsuits. This settlement amount was accrued in the third quarter of 2005 and was paid in the fourth quarter of 2005. The EPDM Settlement Agreement, which has been approved by the applicable courts, permitted potential class members to opt out of the class and the Company to recover a portion of the settlement funds with respect to those potential class members that chose to opt out of the settlement. The opt-out period expired on March 6, 2006 and one class member opted out. In April of 2006, the Company recovered CDN $338,309 (approximately U.S. $295,000) in previously paid settlement funds related to this opt-out.

Rubber Chemicals. The Company has entered into a settlement agreement, dated as of December 1, 2005 (the Rubber Chemicals Settlement Agreement), that is intended to resolve, with respect to the Company and its defendant subsidiaries, four Canadian class action lawsuits.

The Rubber Chemicals Settlement Agreement proposes the certification of the lawsuits as class actions for purposes of the settlement and provides that the Company pay CDN $7.2 million (approximately U.S. $6.5 million) to the class claimants in Canada covering all persons who purchased rubber chemicals products in Canada during the class period of July 1, 1995 to December 31, 2001, in exchange for the final dismissal with prejudice of the lawsuits as to the Company and its defendant subsidiaries and a complete release of all claims against the Company and its defendant subsidiaries set forth in the lawsuits. The Rubber Chemicals Settlement Agreement has been approved by the applicable courts. The opt out period expired on or about September 18, 2006. The Company may recover up to CDN $2.9 million (approximately U.S. $2.6 million) of settlement funds that are related to up to four potential class members that chose to, or were decreed to, opt out of the settlement.

Polyester Polyols (previously described as Urethanes and Urethane Chemicals). The Company and the plaintiffs in two Canadian class action lawsuits relating to polyester polyols (which is a chemical used in the manufacture of polyurethanes) or products that directly or indirectly contain or are derived from polyester polyols (collectively, Polyester Polyols) have entered into a settlement agreement, dated November 8, 2005 (the Polyester Polyols Settlement Agreement), that is intended to resolve, with respect to the Company and its defendant subsidiaries, the Canadian lawsuits.

The Polyester Polyols Settlement Agreement proposes the certification of the lawsuits as class actions for purposes of the settlement and provides that the Company pay CDN $69,000 (approximately U.S. $60,000) to the class claimants in Canada who purchased Polyester Polyols in Canada during the class period of February 1, 1998 to December 31, 2002, in exchange for the final dismissal with prejudice of the lawsuits as to the Company and its defendant subsidiaries and a complete release of all claims against the Company and its defendant subsidiaries set forth in the lawsuits. The Polyester Polyols Settlement Agreement, which is subject to the approval of the courts in Ontario and Quebec identified above and notice to class members, permits potential class members to opt out of the class and the Company to recover a portion of the settlement funds with respect to certain potential class members that choose to opt out of the settlement. The amount of the recovery is not estimable at this time.

At September 30, 2006, the Company has a remaining reserve of $6.5 million included in accrued expenses on its consolidated balance sheet relating to the direct and indirect purchaser lawsuits for Canadian matters.

The reserve activity for antitrust related litigation is summarized as follows:

Governmental Reserves:

(In thousands)	**U.S. DOJ Fines**	**Canada Federal Fines**	**Total U.S. and Canada Fines**	**European Commission**
Balance at December 31, 2005	$ 40,645	$ 6,150	$ 46,795	$ 16,051
Payments	(6,000)	(961)	(6,961)	(16,548)
Antitrust costs, excluding legal fees		72	72	
Accretion - Interest	1,672	268	1,940	
Foreign currency translation		318	318	497
Balance at September 30, 2006	$ 36,317	$ 5,847	$ 42,164	$

Civil Case Reserves:

(In thousands)	**U.S. Civil Matters**	**Canada Civil Matters**	**Total Civil Matters**
Balance at December 31, 2005	$ 51,411	$ 6,154	$ 57,565
Payments	(12,938)		(12,938)
Antitrust costs, excluding legal fees	51,495		51,495
Foreign currency translation		344	344
Balance at September 30, 2006	$ 89,968	$ 6,498	$ 96,466

Federal Securities Class Action And Shareholder Derivative Lawsuit

Federal Securities Class Action

The Company, certain of its former officers and directors (the Crompton Individual Defendants), and certain former directors of the Company s predecessor Witco Corp. are defendants in a consolidated class action lawsuit, filed on July 20, 2004, in the United States District Court, District of Connecticut, brought by plaintiffs on behalf of themselves and a class consisting of all purchasers or acquirers of the Company s stock between October 1998 and October 2002. The consolidated amended complaint principally alleges that the Company and the Crompton Individual Defendants caused the Company to issue false and misleading statements that violated the federal securities laws by reporting inflated financial results resulting from an alleged illegal, undisclosed price-fixing conspiracy. The putative class includes former Witco Corp. shareholders who acquired their securities in the Crompton-Witco merger pursuant to a registration statement that allegedly contained misstated financial results. The complaint asserts claims against the Company and the Crompton Individual Defendants under Section 11 of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Plaintiffs also assert claims for control person liability under Section 15 of the Securities Act of 1933 and Section 20 of the Securities Exchange Act of 1934 against the Crompton Individual Defendants. The complaint also asserts claims for breach of fiduciary duty against certain former directors of Witco Corp. for actions they allegedly took as Witco Corp. directors in connection with the Crompton-Witco merger. The plaintiffs seek, among other things, unspecified damages, interest, and attorneys fees and costs. The Company and the Crompton Individual Defendants filed a motion to dismiss on September 17, 2004, which is now fully briefed and pending. The former directors of Witco Corp. filed a motion to dismiss in February 2005, which is pending. On July 22, 2005, the court granted a motion by the Company and the Crompton Individual Defendants to stay discovery in the related Connecticut shareholder derivative lawsuit (described below under Shareholder Derivative Lawsuit), pending resolution of the motion to dismiss by the Company and Crompton Individual Defendants. The Company reserved $10 million for the securities class action case in accrued expenses in the condensed consolidated balance sheet at September 30, 2006.

Shareholder Derivative Lawsuit

Certain current directors and one former director and officer of the Company (the Individual Defendants) are defendants in a shareholder derivative lawsuit filed on August 25, 2003 in Connecticut state court, nominally brought on behalf of the Company. The Company is a nominal defendant in the lawsuit. The plaintiff filed an amended complaint on November 19, 2004. The amended complaint principally alleges that the Individual Defendants breached their fiduciary duties by causing or allowing the Company to issue false and misleading financial statements by inflating financial results resulting from an alleged illegal, undisclosed price-fixing conspiracy. The plaintiff contends that this wrongful conduct caused the Company s financial results to be inflated, cost the Company its credibility in the marketplace and market share, and has and will continue to cost the Company millions of dollars in investigative and legal fees. The plaintiff seeks, among other things, compensatory and punitive damages against the director defendants in unspecified amounts, prejudgment interest, and attorneys fees and costs. The Company filed a motion to strike all counts of the complaint on January 12, 2005 for failure to allege adequately that a pre-lawsuit demand on the Company s Board of Directors by the plaintiff would have been futile and was thus excused. This motion was subsequently denied by the court. Discovery in this lawsuit has been stayed by the United States District Court, District of Connecticut, pending resolution of the motion to dismiss filed by Company s and the Crompton Individual Defendants in the related consolidated securities class action lawsuit described above under Federal Securities Class Action.

Antitrust Costs

The Company s antitrust costs, which are comprised primarily of settlements and legal costs, were $70.8 million (pre-tax) for the nine months ended September 30, 2006. The antitrust costs included $55.8 million of expense primarily for additional accruals related to settlement offers made to certain rubber chemicals, plastic additives, urethanes and indirect case claimants and $15.0 million for legal costs associated with the antitrust investigations and civil lawsuits. The Company s antitrust costs for the third quarter of 2006 of $25.7 million include $21.7 million primarily for settlement offers made to certain rubber chemicals and indirect case claimants and securities class action plaintiffs, and $4.0 million for legal costs associated with the antitrust investigations and civil lawsuits. The Company expects to continue to incur costs, which may be substantial, until all antitrust investigations are concluded and various related civil claims are resolved.

ENVIRONMENTAL AND OTHER MATTERS

Environmental Matters

Each quarter, the Company evaluates and reviews estimates for future remediation and other costs to determine appropriate environmental reserve amounts. For each site where the cost of remediation is probable and estimable, a determination is made of the specific measures that are believed to be required to remediate the site, the estimated total cost to carry out the remediation plan, the portion of the total remediation costs to be borne by the Company and the anticipated time frame over which payments toward the remediation plan will occur. At sites where the Company expects to incur ongoing operation and maintenance expenditures, the Company accrues on an undiscounted basis for a period, which is generally 10 years, where it believes that such costs are estimable. The total amount accrued for such environmental liabilities at September 30, 2006, was $134.0 million. The Company estimates the determinable environmental liability to range from $121 million to $174 million at September 30, 2006. The Company s reserves include estimates for determinable clean-up costs. During the first nine months of 2006, the Company recorded a pre-tax charge of $10.9 million to increase its environmental liabilities and made payments of $13.8 million for clean-up costs, which reduced its environmental liabilities. At a number of these sites, the extent of contamination has not yet been fully investigated or the final scope of remediation is not yet determinable. The Company intends to assert all meritorious legal defenses and will pursue other equitable factors that are available with respect to these matters. However, the final cost of clean-up at these sites could exceed the Company s present estimates, and could have, individually or in the aggregate, a material adverse effect on the Company s financial condition, results of operations and cash flows. It is reasonably possible that the Company s estimates for environmental remediation liabilities may change in the future should additional sites be identified, further remediation measures be required or undertaken, current laws and regulations be modified or additional environmental laws and regulations be enacted.

The Company and some of its subsidiaries have been identified by federal, state or local governmental agencies, and by other potentially responsible parties (a PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or comparable state statutes, as a PRP with respect to costs associated with waste disposal sites at various locations in the United States. Because these regulations have been construed to authorize joint and several liability, the EPA could seek to recover all costs involving a waste disposal site from any one of the PRP s for such site, including the Company, despite the involvement of other PRP s. In many cases, the Company is one of several hundred PRP s so identified. In a few instances, the Company is one of only a handful of PRP s, and at one site the Company is the only PRP performing investigation and remediation. Where other financially responsible PRP s are involved, the Company expects that any ultimate liability resulting from such matters will be apportioned between the Company and such other parties. In addition, the Company is involved with environmental remediation and compliance activities at some of its current and former sites in the United States and abroad.

Vertac - Uniroyal Chemical Company, Inc. (Uniroyal) (a wholly owned subsidiary of the Company and now known as Chemtura USA Corporation) and its Canadian subsidiary, Uniroyal Chemical Co./Cie (formerly known as Uniroyal Chemical Ltd./Ltee and now known as Chemtura Canada Co./Cie) were joined with others as defendants in consolidated civil actions brought in the United States District Court, Eastern District of Arkansas, Western Division (Court) by the United States of America, the State of Arkansas and Hercules Incorporated (Hercules), relating to a Vertac Chemical Company site in Jacksonville, Arkansas. Uniroyal has been dismissed from the litigation. However, on May 21, 1997, the Court entered an order finding that Uniroyal Chemical Co./Cie is jointly and severally liable to the United States, and finding that Hercules and Uniroyal Chemical Co./Cie are liable to each other in contribution. On October 23, 1998, the Court entered an order granting the United States motion for summary judgment against Uniroyal Chemical Co./Cie and Hercules as to the amount of its claimed removal and remediation costs of $102.9

million at the Vertac site. Trial on the allocation of these costs as between Uniroyal Chemical Co./Cie and Hercules was concluded on November 6, 1998, and on February 3, 2000, the Court entered an Order finding Uniroyal Chemical Co./Cie liable to the United States for approximately $2.3 million and liable to Hercules in contribution for approximately $0.7 million. On April 10, 2001, the United States Court of Appeals for the Eighth Circuit (Appeals Court) (i) reversed a decision in favor of the United States and against Hercules with regard to the issue of divisibility of harm and remanded the case back to the Court for a trial on the issue; (ii) affirmed the finding of arranger liability against Uniroyal Chemical Co./Cie; and (iii) set aside the findings of contribution between Hercules and Uniroyal Chemical Co./Cie by the Court pending a decision upon remand. The Appeals Court also deferred ruling on all constitutional issues raised by Hercules and Uniroyal Chemical Co./Cie pending subsequent findings by the Court. On June 6, 2001, the Appeals Court denied Uniroyal Chemical Co./Cie s petition for rehearing by the full Appeals Court on the Appeals Court s finding of arranger liability against Uniroyal Chemical Co./Cie and on December 10, 2001, Uniroyal Chemical Co./Cie s Petition for a Writ of Certiorari to the United States Supreme Court with regard to the issue of its arranger liability was denied. On December 12, 2001, the Court concluded hearings pursuant to the April 10, 2001 remand by the Appeals Court and briefing on the issue of divisibility was completed in January 2003. On March 30, 2005, the Court entered a memorandum opinion and order finding no basis for Hercules claim of divisibility of harm for the damages arising from the remediation for which Hercules and Uniroyal Chemical Co./Cie had previously been found jointly and severally liable. The Court also rejected challenges to the constitutionality of CERCLA and its application in this case. Further, the Court affirmed its earlier findings regarding allocation. The net result of the memorandum opinion and order is the allocation of liability upon Uniroyal Chemical Co./Cie of 2.6 percent of the damages imposed jointly and severally upon Uniroyal Chemical Co./Cie and Hercules. This finding returns the parties to the positions held following the Court s February 3, 2000 order, which resulted in liability upon Uniroyal Chemical Co./Cie to the United States for approximately $2.9 million and liability to Hercules for contribution for approximately $0.7 million. The Appeals Court affirmed the judgment on July 13, 2006, and later denied petitions for rehearing. Further appellate proceedings are anticipated.

Petrolia - In April 2004, the Company and other owners of property near the Company s former Petrolia, Pennsylvania facility were named as defendants in a toxic tort class action lawsuit alleging contamination in and around the named areas that gave rise to certain property damage and personal injuries. The plaintiffs also sought clean-up by the defendants of the alleged contamination. On October 18, 2005, the Court issued its Memorandum Opinion and Order denying the plaintiffs motion for class certification, and on August 2, 2006, the Pennsylvania Superior Court affirmed the lower court s opinion. Multiple lawsuits have been filed against the Company by individuals who were a part of the putative class.

<u>Legal Proceedings</u>

Conyers - The Company and certain of its former officers and employees were named as defendants in five putative state class action lawsuits filed in three counties in Georgia and one putative class action lawsuit filed in the United States District Court for the Northern District of Georgia pertaining to the fire at the Company s Conyers, Georgia warehouse on May 25, 2004. Of the five putative state class actions, two were voluntarily dismissed by the plaintiffs, leaving three such lawsuits remaining. These remaining putative state class actions, as well as the putative class action pending in federal district court seek recovery for economic and non-economic damages allegedly arising from the fire. Punitive damages are sought in the Davis case in Rockdale County, Georgia and the Martin case in the United States District Court for the Northern District of Georgia. The Martin case also seeks a declaratory judgment to reform certain settlements, as well as medical monitoring and injunctive relief. The Company intends to vigorously defend against these lawsuits.

The Company was also named as a defendant in ten lawsuits filed by individual or multi-party plaintiffs in the Georgia and Federal courts pertaining to the May 25, 2004 fire at its Conyers, Georgia warehouse. One of these lawsuits has been voluntarily dismissed by the plaintiff. The plaintiffs in the remaining lawsuits seek recovery for economic and non-economic damages, including punitive damages in six of the nine remaining lawsuits. One of the lawsuits, the Diana Smith case, was filed in the United States District Court for the Northern District of Georgia against the Company, as well as the City of Conyers and Rockdale County, and includes allegations similar to those in the other lawsuits noted above, but adding claims for alleged civil rights violations, federal Occupational Safety and Health Administration violations, Georgia Racketeer Influenced and Corrupt Organizations Act violations, criminal negligence, reckless endangerment, false imprisonment, and kidnapping, among other claims. The Company intends to vigorously defend against these lawsuits.

Within one day of the fire, the Company established a claims office to resolve all legitimate economic and personal injury claims in the Rockdale County, Georgia area. The Company still maintains a claims office in Conyers, and continues to negotiate the settlement of claims whether submitted through the claims office or otherwise.

At the time of the fire, the Company maintained, and continues to maintain, property and general liability insurance. The Company believes that its general liability policies will adequately cover any third party claims and legal and processing fees in excess of the amounts that were recorded through September 30, 2006.

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Albemarle Corporation - In May 2002, Albemarle Corporation filed two complaints against the Company in the United States District Court for the Middle District of Louisiana, one alleging that the Company infringed three process patents held by Albemarle Corporation relating to bromine vacuum tower technology, and the other alleging that the Company infringed or contributed to or induced the infringement of a patent relating to the use of decabromodiphenyl ethane as a flame retardant in thermoplastics. On a motion by the Company and over Albemarle s objection, the cases were consolidated. In addition, the Company filed a counterclaim with the District Court in the flame retardant cases, alleging, among other things, that the Albemarle patent is invalid or was obtained as a result of inequitable conduct from the United States Patent and Trademark Office. In March 2004, Albemarle amended its consolidated complaint to add additional counts of patent infringement and trade secret violations. The Company believes that the allegations of Albemarle in the consolidated complaint, as well as the allegations in the additional counts, are without basis factually or legally, and intends to defend the case vigorously. On October 25, 2005, Albemarle filed a complaint against Chemtura Corporation and Great Lakes Chemical Corporation in the United States District Court for the Middle District of Louisiana alleging that Chemtura and Great Lakes infringed a recently granted U.S. patent held by Albemarle relating to a decabromodiphenyl ethane wet cake intermediate product. The Company believes that the allegations of the complaint are without basis, factually or legally, and intends to defend the case vigorously. The parties are currently completing the discovery phase of the cases and, in the first case described above, are preparing for a hearing on claim construction scheduled for the first quarter of 2007.

OSCA Great Lakes previously held interests in a company named OSCA, Inc., which interests were divested to BJ Services Company in May 2002. OSCA is a party to certain pending litigation regarding a blowout of a well in the Gulf of Mexico operated by Newfield Exploration Company. In the lawsuit, the plaintiffs claimed that OSCA and the other defendants breached their contracts to perform work-over operations on the well and were negligent in performing those operations. Pursuant to an indemnification agreement between Great Lakes and BJ Services entered into at the time of the sale of OSCA, Great Lakes agreed to remain responsible for 75% of any uninsured liability and costs in excess of $3 million incurred by OSCA upon settlement or final determination of this pending litigation. In April 2002, a jury found OSCA and the other defendants responsible for those claims and determined OSCA s share of the damages. In connection with the lawsuit, OSCA asserted claims against its insurers and insurance brokers in support of insurance coverage for this incident. Following a related trial on these insurance coverage claims, the court issued its final judgments on the underlying liability claims and the insurance coverage claims, entering judgment against OSCA for a net amount of approximately $13.3 million plus interest and finding that such amount was not covered by insurance. The Company and BJ Services appealed certain of the liability and insurance coverage decisions. In April 2006, the United States Fifth Circuit Court of Appeals affirmed the jury s verdict on liability against OSCA, but reversed in part the District Court s decision regarding insurance coverage available to OSCA and remanded the matter to the District Court. The District Court will now determine what portion of the judgment against OSCA is covered by insurance after applying a policy exclusion that the Fifth Circuit found to be valid and applicable.

Each quarter the Company evaluates and reviews pending claims and litigation to determine appropriate reserve amounts. As of September 30, 2006, the Company s accrual for probable loss in the aforementioned legal proceeding cases is immaterial. In addition, the related receivable to reflect probable insurance recoveries is also immaterial.

The Company intends to assert all meritorious legal defenses and will pursue other equitable factors that are available with respect to these matters. The resolution of the legal proceedings now pending or hereafter asserted against the Company or any of its subsidiaries could require the Company to pay costs or damages in excess of its present estimates, and as a result could, either individually or in the aggregate, have a material adverse effect on the Company s financial condition, results of operations and cash flows.

In addition to the matters referred to above, the Company is subject to routine litigation in connection with the ordinary course of its business. These routine matters have not had a material adverse effect on the Company, its business or financial condition in the past, and the Company does not expect this litigation, individually or in the aggregate, to have a material adverse effect on its business or its financial condition in the future, but it can give no assurance that such will be the case.

ITEM 1A. Risk Factors

The Company s risk factors have been described in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. There have been no significant changes in the Company s risk factors during the first nine months of 2006.

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ITEM 6. Exhibits

The following documents are filed as part of this report:

Number	Description
10.1	Fourth Amended and Restated Receivables Sale Agreement dated as of September 28, 2006, by and among Crompton & Knowles Receivables Corporation, as Seller, Chemtura Corporation, as Initial Collection Agent, ABN AMRO Bank N.V, as Agent, and various other banks and liquidity providers (incorporated by reference to Exhibit 10.1 to the Registrant s September 29, 2006 Form 8-K.)
10.2	Merger and Unit Purchase Agreement by and among Crompton Holding Corporation and various other sellers, as Sellers, and D-S Acquisition Co., as Purchaser, dated as of October 30, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant s October 31, 2006 Form 8-K.)(October 31, 2006 Form 8-K)
10.3	Flexperq Program adopted on October 26, 2006, effective January 1, 2007 (incorporated by reference to Exhibit 10.2 to the October 31, 2006 Form 8-K.)
15	Accountants Acknowledgement (filed herewith.)
31.1	Certification of Periodic Report by the Registrant s Chief Executive Officer (Section 302) (filed herewith.)
31.2	Certification of Periodic Report by the Registrant s Chief Financial Officer (Section 302) (filed herewith.)
32.1	Certification of Periodic Report by the Registrant s Chief Executive Officer (Section 906) (filed herewith.)
32.2	Certification of Periodic Report by the Registrant s Chief Financial Officer (Section 906) (filed herewith.)

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CHEMTURA CORPORATION
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHEMTURA CORPORATION
(Registrant)

Date: November 9, 2006	/s/ Karen R. Osar Name: Karen R. Osar Title: Executive Vice President and Chief Financial Officer
Date: November 9, 2006	/s/ Barry J. Shainman Name: Barry J. Shainman Title: Vice President and Secretary

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