

American Midstream Partners, LP
Form 10-Q/A
November 22, 2013

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

FORM 10-Q/A

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from to

Commission File Number: 001-35257

AMERICAN MIDSTREAM PARTNERS, LP
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or organization)

27-0855785
(I.R.S. Employer Identification No.)

1614 15th Street, Suite 300
Denver, CO
(Address of principal executive offices)
(720) 457-6060
(Registrant's telephone number, including area code)

80202
(Zip code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 4,696,666 common units, 4,526,066 subordinated units and 5,142,857 Series A Convertible Preferred Units of American Midstream Partners, LP outstanding as of July 31, 2013. Our common units trade on the New York Stock Exchange under the ticker symbol "AMID."

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this "Amendment") amends the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013, which the Registrant previously filed with the Securities and Exchange Commission on August 14, 2013 (the "Original Filing"). The Registrant is filing this Amendment solely to reflect revisions to Part I, Items 2 and 4 of the Original Filing. All other items of the Original Filing are unaffected by this Amendment and such items have not been included in this Amendment. This Amendment No. 1 does not reflect events occurring after the filing date of the Original Filing or modify or update disclosures in the Original Filing except to correct Part 1, Items 2 and 4.

PART I. FINANCIAL INFORMATION

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations as of and for the year ended December 31, 2012 included in Annual Report on Form 10-K ("Annual Report") that was filed with the Securities and Exchange Commission (the "SEC") on April 16, 2013. This discussion contains forward-looking statements that reflect management's current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements or as a result of certain factors such as those set forth below under the caption "Cautionary Statement Regarding Forward-Looking Statements."

Cautionary Statement About Forward-Looking Statements

Our reports, filings and other public announcements may from time to time contain statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements". You can typically identify forward-looking statements by the use of forward-looking words, such as "may," "could," "project," "believe," "anticipate," "expect," "estimate," "potential," "plan," "forecast" and other similar words.

All statements that are not statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements.

These forward-looking statements reflect our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside our control. Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. These risks and uncertainties, many of which are beyond our control, include, but are not limited to, the risks set forth in "Item 1A. Risk Factors" and elsewhere in this Quarterly Report, the Annual Report and the following:

- the amount of collateral required to be posted from time to time in our transactions;
- our success in risk management activities, including the use of derivative financial instruments to hedge weather, commodity and interest rate risks;
- the level of creditworthiness of counterparties to transactions;
- changes in laws and regulations, particularly with regard to taxes, safety and protection of the environment;
- the timing and extent of changes in natural gas, natural gas liquids and other commodity prices, interest rates and demand for our services;
- weather and other natural phenomena;
- industry changes, including the impact of consolidations and changes in competition;
- our ability to obtain necessary licenses, permits and other approvals;
- the level and success of crude oil and natural gas drilling around our existing and recently acquired assets and our success in connecting natural gas supplies to our gathering and processing systems;
- our ability to grow through acquisitions or internal growth projects and the successful integration and future performance of such assets; and

general economic, market and business conditions.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Quarterly Report will prove to be accurate. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in “Item 1A. Risk Factors” and elsewhere in this Quarterly Report and our Annual Report. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise.

Table of Contents

Overview

We are a growth-oriented Delaware limited partnership that was formed in August 2009 to own, operate, develop and acquire a diversified portfolio of natural gas midstream energy assets. We are engaged in the business of gathering, treating, processing, fractionating and transporting natural gas through our ownership and operation of eleven gathering systems, four processing facilities, three interstate pipelines and five intrastate pipelines. We also own a 50% undivided, non-operating interest in a processing plant located in southern Louisiana. Our primary assets, which are strategically located in Alabama, Louisiana, Mississippi, and Texas, provide critical infrastructure that links producers and suppliers of natural gas to diverse natural gas markets, including various interstate and intrastate pipelines, as well as utility, industrial and other commercial customers. We currently operate approximately 2,100 miles of pipelines that gather and transport over 1 Bcf/d of natural gas.

Significant financial highlights and challenges during the three months ended June 30, 2013, include the following:

The High Point System, along with \$15 million in cash, was contributed to the us by HPIP in exchange for 5,142,857 Series A Units, effective April 15, 2013. The contribution of the High Point System occurred concurrently with HPIP's acquisition of 90% of our general partner and all of our subordinated units, which resulted in HPIP gaining control of the our general partner and a majority of our outstanding limited partner interests;

We distributed \$3.7 million to our unitholders or \$0.4325 per unit, net of \$0.4 million of distribution foregone by our general partner for the first quarter of 2013 during the three months ended June 30, 2013;

For the three months ended June 30, 2013, gross margin increased to \$16.9 million or 50% compared to the same period in 2012;

On April 15, 2013, we repaid approximately \$12.5 million in outstanding borrowings under the credit agreement and entered into the Fourth Amendment in connection with the ArcLight Transactions; and

During the second quarter of 2013, management was approved to commit to a plan to sell certain non-strategic gathering and processing assets which meet specific criteria as held for sale. As of June 30, 2013, certain of our gathering and processing assets were written down by \$1.8 million to the estimated fair value less cost to sell.

Significant operational highlights and challenges during the three months ended June 30, 2013, include the following:

Throughput attributable to the Partnership totaled 951.1 MMcf/d for the second quarter of 2013 representing a 26.5% increase compared to the same period in 2012;

Incremental condensate production associated with our 87.4% undivided interest in the Chatom system totaled 38.6 Mgal/d for the second quarter of 2013 which contributed to our overall of increase in condensate production of 679% for the three months ended June 30, 2013;

As previously disclosed, certain assets were impacted by Hurricane Isaac to which the Partnership is insured for named windstorms on the affected assets after a \$1.0 million deductible. Insurance proceeds of \$0.6 million were received during the three months ended June 30, 2013. and

During the second quarter of 2013, management determined to change its commercial approach towards certain non-strategic gathering and processing assets. As a result, an asset impairment charge of \$15.2 million was recorded for the three months ended June 30, 2013.

Recent Developments

On April 15, 2013, the Partnership, our general partner and AIM Midstream Holdings, LLC, an affiliate of American Infrastructure MLP Fund, entered into agreements with High Point Infrastructure Partners, LLC, an affiliate of ArcLight Capital Partners, LLC ("High Point"), pursuant to which High Point (i) acquired 90% of our general partner, which holds all of our general partner units and incentive distribution rights, and all of our subordinated units from AIM Midstream Holdings, LLC and (ii) contributed certain midstream assets and \$15.0 million in cash to us in exchange for 5,142,857 convertible preferred units (the "Series A Preferred Units") issued by the Partnership. Of the \$15.0 million cash consideration paid by High Point, approximately \$2.5 million was

Table of Contents

used to pay certain transaction expenses of High Point, and the remaining approximately \$12.5 million was used to repay borrowings outstanding under the Partnership's credit facility in connection with the Fourth Amendment. As a result of these transactions, which were also consummated on April 15, 2013, High Point acquired both control of our general partner and a majority of our outstanding limited partnership interests. Please read "— ArcLight Transactions." Contemporaneously with the consummation of these transactions, we also entered into a Fourth Amendment to our credit agreement that, among other things, provides for the permanent waiver of any recent covenant breaches relating to consolidated total leverage ratio, modifies the covenant relating to total leverage ratio through the quarter ended December 31, 2014 and requires us to reduce the quarterly cash distribution that would otherwise be payable in respect of our subordinated units or Series A Preferred Units for the first, second, third and fourth quarters of 2013. Please read "— Fourth Amendment to Credit Agreement" and "—Liquidity and Capital Resources — Our Credit Facility" for more information about our credit facility, covenant violations and related waivers and the Fourth Amendment.

ArcLight Transactions

Purchase Agreement

On April 15, 2013, AIM Midstream Holdings and High Point entered into a Purchase Agreement, pursuant to which High Point purchased from AIM Midstream Holdings all of the Partnership's 4,526,066 subordinated units and 90% of the limited liability company interests in our general partner, which holds all of our general partner units and incentive distribution rights. The transactions contemplated by the Purchase Agreement were consummated on April 15, 2013. Of the cash consideration paid to AIM Midstream Holdings, \$12.5 million is being held in escrow until its release upon satisfaction of certain conditions.

Contribution Agreement

On April 15, 2013, the Partnership and High Point entered into a Contribution Agreement, pursuant to which High Point contributed to us 100% of the limited liability company interests in certain of its subsidiaries that own midstream assets located in southern and offshore Louisiana (the "High Point system") and \$15.0 million in cash in exchange for 5,142,857 newly issued Series A Preferred Units. Of the \$15.0 million cash consideration paid by High Point, approximately \$2.5 million was used to pay certain transaction expenses of High Point, and the remaining approximately \$12.5 million was used to repay borrowings outstanding under the Partnership's June 2012 amended credit facility in connection with the Fourth Amendment. The transactions contemplated by the Contribution Agreement were consummated on April 15, 2013.

Third Amended & Restated Agreement of Limited Partnership

On April 15, 2013, our general partner entered into the Third Amended & Restated Agreement of Limited Partnership of the Partnership (the "Amended Partnership Agreement") providing for the creation and designation of the rights, preferences, terms and conditions of the Series A Preferred Units.

Under the terms of the Amended Partnership Agreement, during the period that commences with the quarter that ends on June 30, 2013 and ending with the earlier of the quarter that includes a conversion of the Series A Preferred Units and the quarter beginning October 1, 2014 (the "Coupon Conversion Quarter"), the Series A Preferred Units will each receive quarterly distributions (the "Series A Quarterly Distributions") in an amount equal to (i) 0.01428571 of additional Series A Preferred Units (subject to customary anti-dilution adjustments) (the "PIK Distribution") and (ii) \$0.25 in cash (with the additional Series A Preferred Units and cash portion relating to the quarter ending June 30, 2013 being prorated based on the number of days in such quarter that follow the date on which the Series A Preferred Units were issued). Commencing with the Coupon Conversion Quarter, the Series A Preferred Units will receive the Series A Quarterly Distributions in an amount equal to the greater of (a) the amount of aggregate distributions that would be payable had such Series A Preferred Units converted into Common Units and (b) a fixed rate of 0.023571428 multiplied by the conversion price, which will initially be \$17.50 per Series A Preferred Unit (subject to customary anti-dilution adjustments) (the "Conversion Price"), paid in arrears within 45 days after the end of each quarter and prior to distributions with respect to the common units and subordinated units. The record date for the determination of holders entitled to receive Series A Quarterly Distributions will be the same as the record date for determination of common unit holders entitled to receive quarterly distributions.

If we fail to pay in full any Series A Quarterly Distribution, the amount of such unpaid distribution will accrue, accumulate and bear interest at a rate of 6.0% per annum from the first day of the quarter immediately following the

quarter for which such distribution is due until paid in full.

The Series A Preferred Units have voting rights that are identical to the voting rights of the common units and will vote with the common units as a single class, with each Series A Preferred Unit entitled to one vote for each common unit into which such Series A Preferred Unit is convertible. The Series A Preferred Units also have separate class voting rights on any matter, including a merger, consolidation or business combination, that adversely affects, amends or modifies any of the rights, preferences, privileges or terms of the Series A Preferred Units. Moreover, the general partner may not take any of the following actions without the prior

Table of Contents

written consent of High Point or any of its affiliates, as long as High Point or such affiliates together hold at least 50% of the Series A Preferred Units and Subordinated Units held by High Point immediately following the issuance of the Series A Preferred Units on April 15, 2013:

cause or permit us to invest in, or dispose of, the equity securities or debt securities of any person or otherwise acquire or dispose of any interest in any person, to acquire or dispose of interest in any joint venture or partnership or any similar arrangement with any person, or to acquire or dispose of assets of any person, or to make any capital expenditure (other than maintenance capital expenditures), or to make any loan or advance to any person if the total consideration (including cash, equity issued and debt assumed) paid or payable, or received or receivable, by us exceeds \$15,000,000 in any one or series of related transactions or in the aggregate exceeds \$50,000,000 in any twelve-month period;

cause or permit us to (i) incur, create or guarantee any indebtedness that exceeds (x) \$75,000,000 in any one or series of related transactions to the extent the proceeds of such financing are used to refinance our existing indebtedness, or (y) \$25,000,000 in any twelve-month period to the extent such indebtedness increases our aggregate indebtedness or (ii) incur, create or guarantee any indebtedness with a yield to maturity exceeding ten percent (10)%;

authorize or permit the purchase, redemption or other acquisition of Partnership interests (or any options, rights, warrants or appreciation rights relating to the Partnership interests) by us;

select or dismiss, or enter into any employment agreement or amendment of any employment agreement of, the chief executive officer and the chief financial officer of the Partnership or its subsidiary, American Midstream, LLC;

enter into any agreement or effect any transaction between us or any of our subsidiaries, on the one hand, and any affiliate of the Partnership or the general partner, on the other hand, other than any transaction in the ordinary course of business and determined by the board of directors of the general partner to be on an arm's length basis; or

cause or permit us or any of our subsidiaries to enter into any agreement or make any commitment to do any of the foregoing.

The Series A Preferred Units are convertible in whole or in part into common units at any time after January 1, 2014 or, prior to that date, with the consent of the required lenders under the June 2012 amended credit agreement, at the holder's election. The number of common units into which a Series A Preferred Unit is convertible will be an amount equal to (i) the sum of \$17.50 and all accrued and accumulated but unpaid distributions, divided by (ii) the Conversion Price, which will initially be \$17.50 per Series A Preferred Unit (subject to customary anti-dilution adjustments) (the "Conversion").

In the event that the Partnership issues, sells or grants any common units or convertible securities at an indicative per Common Unit price that is less than \$17.50 (subject to customary anti-dilution adjustments), then the Conversion Rate will be adjusted according to a formula to provide an increase in the number of common units into which Series A Preferred Units are convertible.

Prior to the consummation of any recapitalization, reorganization, consolidation, merger, spin-off or other business combination in which the holders of common units are to receive securities, cash or other assets (a "Partnership Event"), we are obligated to make an irrevocable written offer, subject to consummation of the Partnership Event, to each holder of Series A Preferred Units to redeem all (but not less than all) of such holder's Series A Preferred Units for a price per Series A Preferred Unit payable in cash equal to the greater of:

the sum of \$17.50 and all accrued and accumulated but unpaid distributions for each Series A Preferred Unit; and
an amount equal to the product of:

(i) the number of common units into which each Series A Preferred Unit is convertible; and

(ii) the sum of:

(A) the cash consideration per common unit to be paid to the holders of common units pursuant to the Partnership Event, plus

(B) the fair market value per common unit of the securities or other assets to be distributed to the holders of the common units pursuant to the Partnership Event.

Upon receipt of such a redemption offer from us, each holder of Series A Preferred Units may elect to receive such cash amount or a preferred security issued by the person surviving or resulting from such Partnership Event and containing provisions substantially equivalent to the provisions set forth in the Amended Partnership Agreement with

respect to the Series A Preferred Units without material abridgement.

Upon any liquidation and winding up of the Partnership or the sale of substantially all of the assets of the Partnership, the holders of Series A Preferred Units generally will be entitled to receive, in preference to the holders of any of the Partnership's other securities, an amount equal to the sum of the \$17.50 multiplied by the number of Series A Units owned by such holders, plus all accrued but unpaid distributions on such Series A Preferred Units.

Change of Control of the General Partner and the Partnership

Through the acquisition of the 90% interest in our general partner, the acquisition of all of our 4,526,066 subordinated units and the issuance of the 5,142,857 Series A Units, High Point acquired control of our general partner and a majority of our outstanding

Table of Contents

limited partner interests. In connection with High Point's acquisition of control of our general partner, each of Robert B. Hellman, Jr., Edward O. Diffendal and L. Kent Moore resigned from the board of directors of our general partner. Mr. Hellman also resigned as chairman of the board of directors of our general partner. These resignations occurred on April 15, 2013. High Point, as the owner of 90% of the limited liability company interests in our general partner, will have the right to fill the board vacancies created by these resignations. Effective April 15, 2013, High Point appointed Messrs. Bergstrom, Erhard and Revers to the board of directors of our general partner.

Fourth Amendment to Credit Agreement

On April 15, 2013, a subsidiary of the Partnership, American Midstream, LLC, as borrower (the "Borrower") and the Partnership entered into a Fourth Amendment with its lenders under its June 2012 amended credit agreement. The Fourth Amendment provides for the following:

- Permits the consummation of the ArcLight Transactions and the PIK Distribution according to the terms of the Amended Partnership Agreement;

- The aggregate commitments of the lenders under the June 2012 amended credit agreement will be reduced to \$175 million if an equity contribution of \$12.5 million has not been made by AIM Midstream Holdings and used to repay borrowings under the June 2012 amended credit facility by October 1, 2013;

- The total outstanding borrowings under the June 2012 amended credit facility shall not exceed \$175 million until such equity contribution by AIM Midstream Holdings has occurred;

- The margins relating to our (i) Eurodollar-based loans range from 2.50% to 4.75% depending on the Consolidated Total Leverage ratio then in effect, and (ii) base rate loans range from 1.5% to 3.75%;

- The definition of Consolidated Total Indebtedness will not include the Series A Preferred Units or certain surety bonds relating to the High Point Assets;

- The definition of Consolidated EBITDA (the consolidated EBITDA for the quarters ending June 30 and September 30, 2013 will be annualized for purposes of the Consolidated Total Leverage Ratio) will:

- include, on a pro forma basis, the consolidated EBITDA of the High Point Subsidiaries as if they were owned by the Partnership beginning on January 1, 2013;

- exclude any insurance proceeds attributable to any event occurring prior to January 1, 2013; and

- exclude any one-time, non-recurring transaction expenses of the Partnership incurred in connection with the ArcLight Transactions or the Fourth Amendment.

Starting with the quarter ending March 31, 2013 and ending with the quarter ending December 31, 2013, unless the Partnership has permanently canceled at least 20% of the number of subordinated units outstanding on April 15, 2013, the Partnership must reduce any quarterly cash distribution on either its subordinated units or Series A Preferred Units (at the Partnership's election) by an aggregate of \$0.4 million per quarter, and such reduction may not be replaced by in-kind distributions of Partnership securities;

- The maximum Consolidated Total Leverage Ratio permitted as of the end of any fiscal quarter cannot exceed the ratio set forth below:

Fiscal Quarter Ending	Consolidated Total Leverage Ratio
June 30, 2013	5.90:1.00
September 30, 2013	5.90:1.00
December 31, 2013	5.75:1.00
March 31, 2014	5.75:1.00
June 30, 2014	5.75:1.00
September 30, 2014	5.50:1.00
December 31, 2014	5.25:1.00
March 31, 2015 and each fiscal quarter thereafter	4.50:1.00

- The Partnership agrees to cooperate with and pay the fees and expenses incurred by Bank of America, N.A., the administrative agent for the June 2012 amended credit agreement, in connection with its engagement of FTI

Consulting to advise and assist it in an assessment of the Partnership's financial condition; and
The lenders permanently waived the Partnership's failure to comply with covenants relating to the Partnership's
Consolidated Total Leverage Ratio for the quarters ended December 31, 2012 and March 31, 2013.

As of July 31, 2013, we had approximately \$131.2 million of outstanding borrowings and approximately \$29.7 million of available borrowing capacity as a result of the reduction of our borrowing capacity to a total of \$175 million as described herein.

Table of Contents

Subsequent Events

Distribution

On July 23, 2013, we announced a distribution of \$0.4325 per unit for the quarter ended June 30, 2013, or \$1.73 per unit on an annualized basis, payable on August 14, 2013 to unitholders of record on August 7, 2013 amounting to \$3.7 million, net of \$0.4 million of distribution foregone by our general partner.

Equity restructuring

Effective August 9, 2013, we executed an equity restructuring agreement with American Midstream GP, LLC, our general partner, the holder of all of the Incentive Distribution Rights, and HPIP, owner of all of the outstanding subordinated units. As part of the equity restructuring agreement, 4.5 million subordinated units and previous Incentive Distribution Rights of the Partnership were combined into, and restructured as a new class of Incentive Distribution Rights (referred to herein as the “new IDRs”). The transaction, which does not require further consents or approvals, was unanimously approved by the Board of Directors of the Partnership, on the unanimous approval and recommendation of its Conflicts Committee, which is composed solely of independent directors.

The equity restructuring permanently eliminates the subordinated units and previous Incentive Distribution Rights of the Partnership in return for the new IDRs. Prior to completion of the equity restructuring, we were required to pay the minimum quarterly distribution of \$0.4125 per unit on the subordinated units, or approximately \$2 million per quarter, prior to increasing the quarterly distribution on American Midstream's common units.

The prior Incentive Distribution Rights provided for our general partner to receive increasing percentages (ranging from 13 percent to 48 percent) of incremental cash distributions after unitholders of the Partnership (both common and subordinated) received quarterly distributions ranging from \$0.47438 per unit to \$0.61875 per unit. The new IDRs entitle our general partner to receive 48 percent of any quarterly cash distributions after common unit holders of the Partnership have received the full minimum quarterly distribution (\$0.4125 per unit) for each quarter plus any arrearages from prior quarters (of which there are currently none).

In conjunction with the equity restructuring, we are entitled to receive \$12.5 million that was placed in escrow in conjunction with the acquisition in April 2013 by HPIP of our subordinated units and general partner interests. Once released from escrow, we will use the proceeds to repay borrowings on our credit facility. Following the release of the \$12.5 million from escrow, the former majority owner of the general partner is entitled to receive warrants to purchase 300,000 of the Partnership's common units with a \$0.01 per warrant exercise price. The warrants will be exercisable on the later of 18 months from the completion of the equity restructuring or the date that the volume weighted average closing price of the common units exceeds \$25.00 for 30 consecutive trading days.

Due to the improvement in distribution coverage resulting from the equity restructuring, management intends to recommend to the board of directors an increase in the quarterly distribution of three percent to five percent beginning with the distribution for the third quarter 2013.

Our Operations

We manage our business and analyze and report our results of operations through two business segments: Gathering and Processing. Our Gathering and Processing segment provides “wellhead-to-market” services to producers of natural gas and oil, which include transporting raw natural gas from various receipt points through gathering systems, treating the raw natural gas, processing raw natural gas to separate the NGLs from the natural gas, performing fractionation and selling or delivering pipeline quality natural gas as well as NGLs to various markets and pipeline systems.

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

Gathering and Processing Segment

7

Table of Contents

Results of operations from our Gathering and Processing segment are determined primarily by the volumes of natural gas we gather, process and fractionate, the commercial terms in our current contract portfolio and natural gas, NGL and condensate prices. We gather and process gas primarily pursuant to the following arrangements:

Fee-Based Arrangements. Under these arrangements, we generally are paid a fixed cash fee for gathering and processing and transporting natural gas.

Fixed-Margin Arrangements. Under these arrangements, we purchase natural gas from producers or suppliers at receipt points on our systems at an index price less a fixed transportation fee and simultaneously sell an identical volume of natural gas at delivery points on our systems at the same, undiscounted index price. By entering into back-to-back purchases and sales of natural gas, we are able to lock in a fixed-margin on these transactions. We view the segment gross margin earned under our fixed-margin arrangements to be economically equivalent to the fee earned in our fee-based arrangements.

Percent-of-Proceeds Arrangements (“POP”). Under these arrangements, we generally gather raw natural gas from producers at the wellhead or other supply points, transport it through our gathering system, process it and sell the residue natural gas, NGLs and condensate at market prices. Where we provide processing services at the processing plants that we own or obtain processing services for our own account in connection with our elective processing arrangements, such as under our Toca contract, we generally retain and sell a percentage of the residue natural gas and resulting NGLs and condensate. However, we also have contracts under which we retain a percentage of the resulting NGLs and do not retain a percentage of residue natural gas, such as for our interest in the Burns Point Plant. Our POP arrangements also often contain a fee-based component.

Interest in the Burns Point Plant. We account for our interest in the Burns Point Plant using the proportionate consolidation method. Under this method, we include in our consolidated statement of operations, our value of plant revenues taken in-kind and plant expenses reimbursed to the operator.

Interest in the Chatom Assets. We account for our 87.4% undivided interest in the Chatom Assets pursuant to ASC No. 810, Consolidation. Under this method, revenues, expenses, gains, losses, net income or loss, and other comprehensive income are reported in the consolidated financial statements at the consolidated amounts, which include the amounts attributable to the partners' and the noncontrolling interests. The consolidated income statement shall separately present net income attributable to the partners' and the noncontrolling interests.

Gross margin earned under fee-based and fixed-margin arrangements is directly related to the volume of natural gas that flows through our systems and is not directly dependent on commodity prices. However, a sustained decline in commodity prices could result in a decline in volumes and, thus, a decrease in our fee-based and fixed-margin gross margin. These arrangements provide stable cash flows, but minimal, if any, upside in higher commodity price environments. Under our typical POP arrangement, our gross margin is directly impacted by the commodity prices we realize on our share of natural gas, NGLs and condensate received as compensation for processing raw natural gas. However, our POP arrangements also often contain a fee-based component, which helps to mitigate the degree of commodity-price volatility we could experience under these arrangements. We further seek to mitigate our exposure to commodity price risk through our hedging program. Please read “ — Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risk.”

Transmission Segment

Results of operations from our Transmission segment are determined primarily by capacity reservation fees from firm transportation contracts and, to a lesser extent, the volumes of natural gas transported on the interstate and intrastate pipelines we own pursuant to interruptible transportation or fixed-margin contracts. Our transportation arrangements are further described below:

Firm Transportation Arrangements. Our obligation to provide firm transportation service means that we are obligated to transport natural gas nominated by the shipper up to the maximum daily quantity specified in the contract. In exchange for that obligation on our part, the shipper pays a specified reservation charge, whether or not the shipper utilizes the capacity. In most cases, the shipper also pays a variable use charge with respect to quantities actually transported by us.

Interruptible Transportation Arrangements. Our obligation to provide interruptible transportation service means that we are only obligated to transport natural gas nominated by the shipper to the extent that we have available capacity.

For this service the shipper pays no reservation charge but pays a variable use charge for quantities actually shipped. Fixed-Margin Arrangements. Under these arrangements, we purchase natural gas from producers or suppliers at receipt points on our systems at an index price less a fixed transportation fee and simultaneously sell an identical volume of natural gas at delivery points on our systems at the same, undiscounted index price. We view fixed-margin arrangements to be economically equivalent to our interruptible transportation arrangements.

Table of Contents

The contribution of the High Point system, which occurred concurrently with HPIP's acquisition of 90% of our general partner, is presented within our Transmission segment.

How We Evaluate Our Operations

Our management uses a variety of financial and operational metrics to analyze our performance. We view these metrics as important factors in evaluating our profitability and review these measurements on at least a monthly basis for consistency and trend analysis. These metrics include throughput volumes, gross margin and direct operating expenses on a segment basis, and adjusted EBITDA on a company-wide basis.

Throughput Volumes

In our Gathering and Processing segment, we must continually obtain new supplies of natural gas to maintain or increase throughput volumes on our systems. Our ability to maintain or increase existing volumes of natural gas and obtain new supplies is impacted by (i) the level of work-overs or recompletions of existing connected wells and successful drilling activity in areas currently dedicated to or near our gathering systems, (ii) our ability to compete for volumes from successful new wells in the areas in which we operate, (iii) our ability to obtain natural gas that has been released from other commitments and (iv) the volume of natural gas that we purchase from connected systems. We actively monitor producer activity in the areas served by our gathering and processing systems to pursue new supply opportunities.

In our Transmission segment, a significant portion of our segment gross margin is generated by firm capacity reservation fees, as opposed to the actual throughput volumes, on our interstate and intrastate pipelines. Segment gross margin on our High Point system, effective April 15, 2013, is generated through volumetric fees, and therefore gross margin is highly dependent on throughput volumes. Substantially all Transmission segment gross margin is generated under contracts with shippers, including producers, industrial companies, LDCs and marketers, for firm and interruptible natural gas transportation on our pipelines. We routinely monitor natural gas market activities in the areas served by our transmission systems to pursue new shipper opportunities.

Gross Margin and Segment Gross Margin

Gross margin and segment gross margin are metrics that we use to evaluate our performance. We define segment gross margin in our Gathering and Processing segment as revenue generated from gathering and processing operations and realized gain (loss) on commodity derivatives, less construction, operating and maintenance agreement ("COMA") income, less the cost of natural gas, NGLs and condensate purchased (inclusive, of gross margin from discontinued operations). Revenue includes revenue generated from fixed fees associated with the gathering and treating of natural gas and from the sale of natural gas, NGLs and condensate resulting from gathering, processing and fractionating activities under fixed-margin and POP arrangements. The cost of natural gas, NGLs and condensate includes volumes of natural gas, NGLs and condensate remitted back to producers pursuant to POP arrangements and the cost of natural gas purchased for our own account, including pursuant to fixed-margin arrangements.

We define segment gross margin in our Transmission segment as revenue generated from firm and interruptible transportation agreements and fixed-margin arrangements, plus other related fees, less COMA income, less the cost of natural gas purchased in connection with fixed-margin arrangements. Substantially all of our gross margin in this segment is fee-based or fixed-margin, with little to no direct commodity price risk.

Effective October 1, 2012, we changed our segment gross margin measure to exclude COMA income. For the three months ended June 30, 2013 and 2012, \$0.1 million and \$0.1 million in COMA income was excluded from our Gathering and Processing segment gross margin, respectively and less than \$0.1 million and \$0.8 million in COMA income was excluded from our Transmission segment gross margin, respectively. For the six months ended June 30, 2013 and 2012, \$0.1 million and \$0.6 million in COMA income was excluded from our Gathering and Processing segment gross margin, respectively and \$0.1 million and \$1.6 million in COMA income was excluded from our Transmission segment gross margin, respectively.

We define gross margin as the sum of our segment gross margin for our Gathering and Processing and Transmission segments. The GAAP measure most comparable to gross margin is net income.

Direct Operating Expenses

Our management seeks to maximize the profitability of our operations in part by minimizing direct operating expenses without sacrificing safety or the environment. Direct labor costs, insurance costs, ad valorem and property taxes, repair and non-capitalized maintenance costs, integrity management costs, utilities, lost and unaccounted for gas and contract services comprise the most significant portion of our operating expenses. These expenses are relatively stable and largely independent of throughput volumes through our systems, but may fluctuate depending on the activities performed during a specific period.

Table of Contents

Adjusted EBITDA

Adjusted EBITDA is a measure used by our management and by external users of our financial statements such as investors, commercial banks, research analysts and others, to assess:

- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate cash sufficient to support our indebtedness and make cash distributions to our unitholders and general partner;
- our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard to financing or capital structure; and
- the attractiveness of capital projects and acquisitions and the overall rates of return on alternative investment opportunities.

We define adjusted EBITDA as net income, plus interest expense, income tax expense, depreciation expense, certain non-cash charges such as non-cash equity compensation, unrealized losses on commodity derivative contracts and selected charges that are unusual or non-recurring such as impairments of long-lived assets, less interest income, income tax benefit, unrealized gains on commodity derivative contracts, COMA income, amortization of commodity put purchase costs, and selected gains that are unusual or non-recurring. The GAAP measure most directly comparable to adjusted EBITDA is net income.

Note About Non-GAAP Financial Measures

Gross margin and adjusted EBITDA are non-GAAP financial measures. Each has important limitations as an analytical tool because it excludes some, but not all, items that affect the most directly comparable GAAP financial measures. Management compensates for the limitations of these non-GAAP measures as analytical tools by reviewing the comparable GAAP measures, understanding the differences between the measures and incorporating these data points into management's decision-making process.

You should not consider any of gross margin or adjusted EBITDA in isolation or as a substitute for analysis of our results as reported under GAAP. Gross margin and adjusted EBITDA may be defined differently by other companies in our industry. Our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

For a reconciliation of gross margin to net income, its most directly comparable financial measure calculated and presented in accordance with GAAP, please read Note 15 "Reporting Segments" to our unaudited condensed consolidated financial statements included in "Item 1. Financial Statements" of this Quarterly Report.

The following table reconciles the non-GAAP financial measures of adjusted EBITDA used by management to Net (loss) income attributable to the Partnership, their most directly comparable GAAP measure, for the three and six months ended June 30, 2013 and 2012 (in thousands):

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net (loss) income attributable to the Partnership	\$(21,637) \$2,327	\$(25,190) \$4,018
Add:				
Depreciation and accretion expense	6,733	5,124	12,411	10,283
Interest expense	1,581			