Calumet Specialty Products Partners, L.P.
Form 10-Q
May 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 000-51734

Calumet Specialty Products Partners, L.P.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**37-1516132** **(I.R.S. Employer** **Identification Number)**
2780 Waterfront Parkway East Drive, Suite 200 **Indianapolis, Indiana** **(Address of Principal Executive Officers)**	**46214** **(Zip Code)**

(317) 328-5660

(Registrant s Telephone Number Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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 x 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 Registration 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 x 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. (Check one):

Large accelerated filer	¨	Accelerated filer	x
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 Act). Yes ¨ No x

At May 4, 2012, there were 51,529,778 common units outstanding.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

QUARTERLY REPORT

For the Three Months Ended March 31, 2012

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this Quarterly Report) includes certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements can be identified by the use of forward-looking terminology including may, intend, believe, expect, anticipate, est continue, or other similar words. The statements regarding (i) estimated capital expenditures as a result of the required audits or required operational changes included in our settlement with the Louisiana Department of Environmental Quality (LDEQ) or other environmental and regulatory liabilities, (ii) our anticipated levels of, use and effectiveness of derivatives to mitigate our exposure to crude oil price changes and fuel products price changes, (iii) our plans, objectives, expectations and intentions with respect to the future operations of the Superior refinery and associated assets and (iv) our ability to meet our financial commitments, minimum quarterly distributions to our unitholders, debt service obligations, debt instrument covenants, contingencies and anticipated capital expenditures, as well as other matters discussed in this Quarterly Report that are not purely historical data, are forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause our actual results to differ from those in the forward-looking statements are those described in (1) Part I, Item 3 Quantitative and Qualitative Disclosures About Market Risk and (2) Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 Annual Report). Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

References in this Quarterly Report to Calumet Specialty Products Partners, L.P., the Company, we, our, us or like terms refer to Calumet Specialty Products Partners, L.P. and its subsidiaries. References in this Quarterly Report to our general partner refer to Calumet GP, LLC, the general partner of Calumet Specialty Products Partners, L.P.

PART I

Item 1. ***Financial Statements***

CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
	(In thousands, except unit data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,416	$ 64
Accounts receivable:		
Trade	286,154	208,928
Other	5,414	3,137
	291,568	212,065
Inventories	506,584	497,740
Derivative assets	77	58,502
Prepaid expenses and other current assets	6,343	8,179
Deposits	3,287	2,094
Total current assets	814,275	778,644
Property, plant and equipment, net	861,323	842,101
Goodwill	49,217	48,335
Other intangible assets, net	31,091	22,675
Other noncurrent assets, net	43,513	40,303
Total assets	$ 1,799,419	$ 1,732,058
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable	$ 339,969	$ 300,859
Accounts payable related parties	1,504	1,967
Accrued interest payable	24,330	10,500
Accrued salaries, wages and benefits	8,691	13,481
Taxes payable	12,805	13,068
Other current liabilities	4,478	4,600
Current portion of long-term debt	1,020	551
Derivative liabilities	90,724	43,581
Total current liabilities	483,521	388,607
Pension and postretirement benefit obligations	26,584	26,957
Other long-term liabilities	1,497	1,055
Long-term debt, less current portion	665,623	586,539
Total liabilities	1,177,225	1,003,158
Commitments and contingencies		
Partners capital:		
Limited partners interest (51,529,778 units issued and outstanding at March 31, 2012 and December 31, 2011)	689,160	666,471
General partner s interest	24,624	23,902

Accumulated other comprehensive income (loss)	(91,590)	38,527
Total partners capital	622,194	728,900
Total liabilities and partners capital	$ 1,799,419	$ 1,732,058

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011
	(In thousands, except per unit data)	
Sales	$ 1,169,586	$ 605,240
Cost of sales	1,085,342	558,376
Gross profit	84,244	46,864
Operating costs and expenses:		
Selling, general and administrative	18,142	10,528
Transportation	27,542	23,075
Taxes other than income taxes	1,730	1,360
Other	1,816	535
Operating income	35,014	11,366
Other income (expense):		
Interest expense	(18,584)	(7,481)
Realized gain on derivative instruments	9,424	386
Unrealized gain (loss) on derivative instruments	26,044	(417)
Other	118	617
Total other income (expense)	17,002	(6,895)
Net income before income taxes	52,016	4,471
Income tax expense	93	270
Net income	$ 51,923	$ 4,201
Allocation of net income:		
Net income	$ 51,923	$ 4,201
Less:		
General partner s interest in net income	1,038	84
General partner s incentive distribution rights	523	
Nonvested share based payments	308	
Net income available to limited partners	$ 50,054	$ 4,117
Weighted average limited partner units outstanding:		
Basic	51,685	36,875
Diluted	51,736	36,895
Limited partners interest basic and diluted net income per unit	$ 0.97	$ 0.11
Cash distributions declared per limited partner unit	$ 0.53	$ 0.47

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Net income	$ 51,923	$ 4,201
Other comprehensive loss:		
Cash flow hedges:		
Cash flow hedge loss reclassified to net income	42,802	19,514
Change in fair value of cash flow hedges	(173,054)	(128,724)
Defined benefit pension and retiree health benefit plans	135	61
Total other comprehensive loss	(130,117)	(109,149)
Comprehensive loss attributable to partners capital	$ (78,194)	$ (104,948)

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

	Accumulated Other Comprehensive Income (Loss)	Partners Capital General Partner	Limited Partners	Total
		(In thousands)		
Balance at December 31, 2011	$ 38,527	$ 23,902	$ 666,471	$ 728,900
Other comprehensive loss	(130,117)			(130,117)
Net income		1,561	50,362	51,923
Units repurchased for phantom unit grants			(2,036)	(2,036)
Issuance of phantom units			1,579	1,579
Amortization of vested phantom units			144	144
Distributions to partners		(839)	(27,360)	(28,199)
Balance at March 31, 2012	$ (91,590)	$ 24,624	$ 689,160	$ 622,194

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2012	2011
	(In thousands)	
Operating activities		
Net income	$ 51,923	$ 4,201
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,624	14,432
Amortization of turnaround costs	3,522	3,213
Non-cash interest expense	1,373	998
Provision for doubtful accounts	250	135
Unrealized (gain) loss on derivative instruments	(26,044)	417
Non-cash equity based compensation	592	896
Other non-cash activities	246	131
Changes in assets and liabilities:		
Accounts receivable	(75,188)	(27,430)
Inventories	1,907	(24,819)
Prepaid expenses and other current assets	2,105	414
Derivative activity	1,360	4,305
Turnaround costs	(7,933)	(5,587)
Deposits	(1,193)	(29,900)
Other assets		(893)
Accounts payable	35,975	31,697
Accrued interest payable	13,830	(730)
Accrued salaries, wages and benefits	(3,810)	(1,884)
Taxes payable	(263)	(79)
Other liabilities	(948)	(12,019)
Pension and postretirement benefit obligations	(238)	(404)
Net cash provided by (used in) operating activities	17,090	(42,906)
Investing activities		
Additions to property, plant and equipment	(9,735)	(6,566)
Acquisitions of TruSouth and Missouri	(46,398)	
Proceeds from sale of equipment	1,900	59
Net cash used in investing activities	(54,233)	(6,507)
Financing activities		
Proceeds from borrowings revolving credit facility	678,582	289,791
Repayments of borrowings revolving credit facility	(604,411)	(300,623)
Repayments of borrowings term loan credit facility		(963)
Payments on capital lease obligations	(441)	(267)
Proceeds from public offering of common units, net		92,366
Contributions from Calumet GP, LLC		1,970
Common units repurchased for vested phantom unit grants	(2,036)	(620)
Distributions to partners	(28,199)	(16,948)
Net cash provided by financing activities	43,495	64,706
Net increase in cash and cash equivalents	6,352	15,293
Cash and cash equivalents at beginning of period	64	37

Cash and cash equivalents at end of period	$ 6,416	$ 15,330

See accompanying notes to unaudited condensed consolidated financial statements.

CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

1. Description of the Business

Calumet Specialty Products Partners, L.P. (the Company) is a Delaware limited partnership. The general partner of the Company is Calumet GP, LLC, a Delaware limited liability company. As of March 31, 2012, the Company had 51,529,778 limited partner common units and 1,051,628 general partner equivalent units. The general partner owns 2% of the Company and all of the incentive distribution rights (as defined in the partnership agreement), while the remaining 98% is owned by limited partners. The general partner employs all employees and the limited partnership reimburses the general partner for all expenses. The Company is engaged in the production and marketing of crude oil-based specialty lubricating oils, white mineral oils, solvents, petrolatums, asphalt, waxes and fuel and fuel related products including gasoline, diesel, jet fuel and heavy fuel oils. The Company owns facilities located in Shreveport, Louisiana (Shreveport and TruSouth); Superior, Wisconsin (Superior); Princeton, Louisiana (Princeton); Cotton Valley, Louisiana (Cotton Valley); Karns City, Pennsylvania (Karns City); Dickinson, Texas (Dickinson) and Louisiana, Missouri (Missouri) and terminals located in Burnham, Illinois (Burnham); Rhinelander, Wisconsin (Rhinelander); Crookston, Minnesota (Crookston) and Proctor, Minnesota (Duluth).

The unaudited condensed consolidated financial statements of the Company as of March 31, 2012 and for the three months ended March 31, 2012 and 2011 included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America (the U.S.) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented. All adjustments are of a normal nature, unless otherwise disclosed. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s 2011 Annual Report.

2. New and Recently Adopted Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). ASU 2011-11 will require entities to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of such arrangements on the balance sheet. Entities are required to disclose both gross information and net information about financial instruments and derivative instruments that are either offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. ASU 20011-11 is effective for the first reporting period (including interim periods) beginning after January 1, 2013 and should be applied retrospectively for any period presented. The Company is in the process of evaluating the impact of the adoption of ASU 2011-11 on the Company s financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05), which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income (loss) as part of the statement of partners capital. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income (loss) which contains two sections, net income and other comprehensive income (loss), or in two separate but consecutive statements. In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12), which indefinitely defers the requirement in ASU 2011-05 to present reclassification adjustments out of accumulated other comprehensive income (loss) by component in both the statement in which net income is presented and the statement in which other comprehensive income (loss) is presented. During the deferral period, the existing requirements in U.S. GAAP for the presentation of reclassification adjustments must continue to be followed. Amendments to ASU 2011-05, as superseded by ASU 2011-12, are effective for fiscal years (including interim periods) beginning after December 15, 2011 and are to be applied retrospectively, with early adoption permitted. The Company elected to present the components of comprehensive loss in two separate but consecutive financial statements, which is illustrated in the unaudited condensed consolidated statements of operations and the unaudited condensed consolidated statements of comprehensive loss.

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In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04). ASU 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments are of two types: (i) those that clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU 2011-04 is effective for the first reporting period (including interim periods) beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Company s unaudited condensed consolidated financial statements.

3. Acquisitions

Superior Acquisition

On September 30, 2011, the Company completed the acquisition of the Superior, Wisconsin refinery and associated operating assets and inventories and related business of Murphy Oil Corporation (Murphy Oil) for aggregate consideration of approximately $413,173 (Superior Acquisition). The Superior Acquisition was financed by a combination of (i) net proceeds of $193,538 from the Company s September 2011 public offering of common units (including the general partner s contribution and excluding the over-allotment option exercised), (ii) net proceeds of $180,296 from the Company s September 2011 private placement of 9⅜% senior notes due May 1, 2019 and (iii) borrowings under the revolving credit facility.

The allocation of the aggregate purchase price to assets acquired and liabilities assumed is as follows:

	Allocation of Purchase Price
Inventories	$ 183,602
Prepaid expenses and other current assets	5,845
Property, plant and equipment	239,478
Accrued salaries, wages and benefits	(775)
Pension and postretirement benefit obligations	(14,977)
Total purchase price	$ 413,173

Missouri Acquisition

On January 3, 2012, the Company completed the acquisition of the aviation and refrigerant lubricants business (a polyolester based synthetic lubricants business) of Hercules Incorporated, a subsidiary of Ashland, Inc., and a manufacturing facility located in Louisiana, Missouri (Missouri Acquisition) for aggregate consideration of approximately $19,575, excluding certain purchase price adjustments. The Missouri Acquisition was financed with borrowings under the Company s revolving credit facility and cash on hand. The Company believes the Missouri Acquisition will provide greater diversity to its specialty products segment. The assets acquired have been included in the condensed consolidated balance sheet and results have been included in the unaudited condensed consolidated statements of operations since the date of acquisition. In connection with the Missouri Acquisition, the Company incurred acquisition costs during 2012 of approximately $480 which are reflected in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations.

The Company recorded $795 of goodwill as a result of this acquisition, all of which was recorded within the Company s specialty products segment. The preliminary allocation of the aggregate purchase price to assets acquired is as follows:

	Allocation of Purchase Price
Inventories	$ 2,775
Property, plant and equipment	9,955

Goodwill		795
Other intangible assets		6,050
Total purchase price	$	19,575

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The component of the intangible asset listed in the table above as of January 3, 2012, based upon a preliminary third party appraisal, was as follows:

	Amount	Life
Customer relationships	$ 6,050	20

TruSouth Acquisition

On January 6, 2012, the Company completed the acquisition of all of the outstanding membership interests of TruSouth Oil, LLC, a specialty petroleum packaging and distribution company located in Shreveport, Louisiana (TruSouth Acquisition) for aggregate consideration of approximately $26,823, excluding certain purchase price adjustments. The TruSouth Acquisition was financed with borrowings under the Company s revolving credit facility. Immediately prior to its acquisition by the Company, TruSouth was owned in part by affiliates of the Company s general partner. The Company believes the TruSouth Acquisition will provide greater diversity to its specialty products segment. The assets acquired and liabilities assumed have been included in the condensed consolidated balance sheet and results have been included in the unaudited condensed consolidated statements of operations since the date of acquisition. In connection with the TruSouth Acquisition, the Company incurred acquisition costs during 2012 of approximately $154 which are reflected in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations.

The Company recorded $71 of goodwill as a result of this acquisition, all of which was recorded within the Company s specialty products segment. The preliminary allocation of the aggregate purchase price to assets acquired and liabilities assumed is as follows:

	Allocation of Purchase Price
Accounts receivable	$ 4,565
Inventories	7,976
Prepaid expenses and other current assets	269
Property, plant and equipment	17,344
Goodwill	71
Other intangible assets	4,205
Accounts payable	(2,672)
Accrued salaries, wages and benefits	(151)
Other current liabilities	(1,268)
Long-term debt	(3,516)
Total purchase price, net of cash acquired	$ 26,823

The components of intangible assets listed in the table above as of January 6, 2012, based upon a preliminary third party appraisal, were as follows:

	Amount	Life
Customer relationships	$ 2,395	15
Tradenames	1,685	9
Non-competition agreements	125	2
Total	$ 4,205	
Weighted average amortization period		12

Results of Sales and Earnings

The following financial information reflects the results of sales and operating income of the Superior, Missouri and TruSouth Acquisitions that is included in the unaudited condensed consolidated statement of operations for the three months ended March 31, 2012:

	Three Months Ended March 31, 2012
Sales	$ 353,822
Operating income	20,372

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Pro Forma Financial Information

The following unaudited pro forma financial information reflects the unaudited condensed consolidated results of operations of the Company as if the Superior, Missouri and TruSouth Acquisitions had taken place on January 1, 2011.

	Three Months Ended March 31, 2011
Sales	$ 898,140
Net income	13,414
Limited partners interest net income per unit basic and diluted	$ 0.26

The Company s historical financial information was adjusted to give effect to the pro forma events that were directly attributable to the Superior, Missouri and TruSouth Acquisitions. This unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations of the combined company.

The 2011 unaudited pro forma financial information reflects adjustments to increase interest expense by $3,396 as a result of the issuance of the 2019 Notes (defined below), amending and restating the revolving credit facility, additional borrowings under the revolving credit facility to fund a portion of the Superior, Missouri and TruSouth Acquisitions and the repayment of borrowings under the prior term loan from the net proceeds of the 2019 Notes issued in April 2011. Additionally, the unaudited pro forma financial information reflects adjustments to increase depreciation expense by $216 as a result of the addition of fixed assets related to the Superior Acquisition at their estimated fair value, as well as adjustments to eliminate the income tax expense attributable to the Superior Acquisition and of $4,468.

Fair Value Measurements of Acquisitions

The fair value of the property, plant and equipment and intangible assets are based upon the discounted cash flow method that involves inputs that are not observable in the market (Level 3). Goodwill assigned represents the amount of consideration transferred in excess of the fair value assigned to individual assets acquired and liabilities assumed.

4. Inventories

The cost of inventories is determined using the last-in, first-out (LIFO) method. Costs include crude oil and other feedstocks, labor, processing costs and refining overhead costs. Inventories are valued at the lower of cost or market value.

Inventories consist of the following:

	March 31, 2012	December 31, 2011
Raw materials	$ 111,571	$ 105,802
Work in process	108,658	91,763
Finished goods	286,355	300,175
	$ 506,584	$ 497,740

The replacement cost of these inventories, based on current market values, would have been $97,913 and $87,635 higher as of March 31, 2012 and December 31, 2011, respectively.

5. Commitments and Contingencies

From time to time, the Company is a party to certain claims and litigation incidental to its business, including claims made by various taxation and regulatory authorities, such as the U.S. Environmental Protection Agency (EPA), the Louisiana Department of Environmental Quality (LDEQ), the Wisconsin Department of Natural Resources (WDNR), the Internal Revenue Service, various state and local departments of revenue and the federal Occupational Safety and Health Administration (OSHA), as the result of audits or reviews of the Company s business. In addition, the Company has property, business interruption, general liability and various other insurance policies that may result in certain losses or expenditures being reimbursed to the Company.

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Environmental

The Company operates crude oil and specialty hydrocarbon refining and terminal operations, which are subject to stringent and complex federal, state, regional and local laws and regulations governing worker health and safety, the discharge of materials into the environment and environmental protection. These laws and regulations can impose obligations that are applicable to the Company s operations, such as requiring the acquisition of permits to conduct regulated activities, restricting the manner in which the Company may release materials into the environment, requiring remedial activities or capital expenditures to mitigate pollution from former or current operations, requiring the application of specific health and safety criteria addressing worker protection and imposing substantial liabilities for pollution resulting from its operations. Certain of these laws impose joint and several, strict liability for costs required to remediate and restore sites where petroleum hydrocarbons, wastes, or other materials have been released or disposed.

In connection with the Superior Acquisition, the Company became a party to an existing consent decree (Consent Decree) with the EPA and WDNR that applies, in part, to its Superior refinery. Under the Consent Decree, the Company will have to complete certain reductions in air emissions at the Superior refinery as well as report upon certain emissions from the facility to the EPA and WDNR. The Company currently estimates costs of approximately $4,500 to make known equipment upgrades and conduct other discrete tasks in compliance with the Consent Decree. Failure to perform required tasks under the Consent Decree could result in the imposition of stipulated penalties, which could be significant. In addition, the Company may have to pursue certain additional environmental and safety-related projects at the Superior refinery including, but not limited to: (i) installing process equipment pursuant to applicable EPA fuel content regulations; (ii) purchasing emission credits on an interim basis until such time as any process equipment that may be required under the EPA fuel content regulations is installed and operational; (iii) performing monitoring and remediation of historical contamination at the facility; (iv) upgrading treatment equipment or possibly pursuing other remedies, as necessary, to satisfy new effluent discharge limits under a federal Clean Water Act permit renewal that is pending and (v) pursuing various voluntary programs at the Superior refinery, including removing asbestos-containing materials or enhancing process safety or other maintenance practices. Completion of these additional projects would result in the Company incurring additional costs, which could be substantial. For the three months ended March 31, 2012, the Company incurred approximately $543 of costs related to installing process equipment pursuant to the EPA fuel content regulations. The Company currently estimates costs for performing monitoring and remediation of historical contamination at the Superior refinery to be approximately $200 per year.

In addition, the Company is indemnified by Murphy Oil for specified environmental liabilities including: (i) certain obligations arising out of the Consent Decree (including payment of a civil penalty required under the Consent Decree), (ii) certain liabilities arising in connection with Murphy Oil s transport of certain wastes and other materials to specified offsite real properties for disposal or recycling prior to the Superior Acquisition and (iii) certain liabilities for certain third party actions, suits or proceedings alleging exposure, prior to the Superior Acquisition, of an individual to wastes or other materials at the specified on-site real property, which wastes or other materials were spilled, released, emitted or discharged by Murphy Oil. The Company is also indemnified by Murphy Oil for two years following the Superior Acquisition for liabilities arising from breaches of certain environmental representations and warranties made by Murphy Oil, subject to a maximum liability of $22,000, for which the Company is required to contribute up to the first $6,600.

On December 23, 2010, the Company entered into a settlement agreement with the LDEQ under LDEQ s Small Refinery and Single Site Refinery Initiative, covering Calumet s Shreveport, Princeton, and Cotton Valley refineries. This settlement agreement became effective on January 31, 2012. The settlement agreement, termed the Global Settlement, resolved alleged violations of the federal Clean Air Act and federal Clean Water Act regulations prior to December 31, 2010. The Company made a $1,000 payment to the LDEQ and agreed to complete beneficial environmental programs and implement emissions reduction projects at the Company s Shreveport, Cotton Valley and Princeton refineries on an agreed-upon schedule. During the three months ended March 31, 2012, the Company incurred approximately $1,000 of expenditures and estimates additional expenditures of approximately $6,000 to $10,000 of capital expenditures and expenditures related to additional personnel and environmental studies over the next four years as a result of the implementation of these requirements. This agreement also fully settles the alleged environmental and permit violations at the Company s Cotton Valley and Princeton refineries and stipulates that no further civil penalties over alleged past violations at those refineries will be pursued by the LDEQ. The required investments are expected to include projects resulting in (i) nitrogen oxide and sulfur dioxide emission reductions from heaters and boilers and the application of New Source Performance Standards for sulfur recovery plants and flaring devices, (ii) control of incidents related to acid gas flaring, tail gas and hydrocarbon flaring, (iii) electrical reliability improvements to reduce flaring, (iv) flare refurbishment at the Shreveport refinery, (v) enhancement of the Benzene Waste National Emissions Standards for Hazardous Air Pollutants programs and the Leak Detection and Repair programs at the Company s Shreveport, Princeton and Cotton Valley refineries and (vi) Title V audits and targeted audits of certain regulatory compliance programs. During negotiations with the LDEQ, the Company voluntarily initiated projects for certain of these requirements prior to completing the Global Settlement with the LDEQ, and currently anticipates completion of these projects over the next four years. These capital investment requirements will be incorporated into the Company s annual capital expenditures budget and the Company

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does not expect any additional capital expenditures as a result of the required audits or required operational changes included in the Global Settlement to have a material adverse effect on the Company s financial results or operations. The terms of this settlement agreement were deemed final and effective on January 31, 2012 upon the concurrence of the Louisiana Attorney General.

Voluntary remediation of subsurface contamination is in process at each of the Company s refinery sites. The remedial projects are being overseen by the appropriate state agencies. Based on current investigative and remedial activities, the Company believes that the groundwater contamination at these refineries can be controlled or remedied without having a material adverse effect on the Company s financial condition. However, such costs are often unpredictable and, therefore, there can be no assurance that the future costs will not become material. The Company incurred approximately $204 of such capital expenditures at its Cotton Valley refinery during the first three months of 2011 and completed such capital expenditures during 2011 at its Cotton Valley refinery.

The Company is indemnified by Shell Oil Company, as successor to Pennzoil-Quaker State Company and Atlas Processing Company, for specified environmental liabilities arising from the operations of the Shreveport refinery prior to the Company s acquisition of the facility. The indemnity is unlimited in amount and duration, but requires the Company to contribute up to $1,000 of the first $5,000 of indemnified costs for certain of the specified environmental liabilities.

Occupational Health and Safety

The Company is subject to various laws and regulations relating to occupational health and safety, including OSHA and comparable state laws. These laws and regulations strictly govern the protection of the health and safety of employees. In addition, OSHA s hazard communication standard requires that information be maintained about hazardous materials used or produced in the Company s operations and that this information be provided to employees, contractors, state and local government authorities and customers. The Company maintains safety and training programs as part of its ongoing efforts to ensure compliance with applicable laws and regulations. The Company has implemented an internal program of inspection designed to monitor and enforce compliance with worker safety requirements as well as a quality system that meets the requirements of the ISO-9001-2008 Standard. The integrity of the Company s ISO-9001-2008 Standard certification is maintained through surveillance audits by its registrar at regular intervals designed to ensure adherence to the standards. The Company s compliance with applicable health and safety laws and regulations has required, and continues to require, substantial expenditures.

The Company has completed studies to assess the adequacy of its process safety management practices at its Shreveport refinery with respect to certain consensus codes and standards. During the three months ended March 31, 2012, the Company incurred approximately $254 of capital expenditures and expects to incur between $1,000 and $4,000 of capital expenditures during the remainder of 2012 and in 2013 to address OSHA compliance issues identified in these studies. The Company expects these capital expenditures will enhance its equipment such that the equipment maintains compliance with applicable consensus codes and standards.

In the first quarter of 2011, OSHA conducted an inspection of the Cotton Valley refinery s process safety management program under OSHA s National Emphasis Program. On March 14, 2011, OSHA issued a Citation and Notification of Penalty (the Cotton Valley Citation) to the Company as a result of the Cotton Valley inspection, which included a proposed penalty amount of $208. The Company has contested the Cotton Valley Citation and associated penalties and is currently in negotiations with OSHA to reach a settlement allowing an extended abatement period for a new refinery flare system study and for completion of facility site modifications, including relocation and hardening of structures.

Standby Letters of Credit

The Company has agreements with various financial institutions for standby letters of credit which have been issued to domestic vendors. As of March 31, 2012 and December 31, 2011, the Company had outstanding standby letters of credit of $223,928 and $230,040, respectively, under its senior secured revolving credit facility (the revolving credit facility). Refer to Note 6 for additional information regarding the revolving credit facility. The maximum amount of letters of credit the Company could issue at March 31, 2012 and December 31, 2011 under its revolving credit facility is subject to borrowing base limitations, with a maximum letter of credit sublimit equal to $680,000, which is the greater of (i) $400,000 and (ii) 80% of revolver commitments ($850,000 at March 31, 2012 and December 31, 2011) in effect.

As of March 31, 2012 and December 31, 2011, the Company had availability to issue letters of credit of $343,242 and $340,715, respectively, under its revolving credit facility. As discussed in Note 7, as of March 31, 2012 and December 31, 2011 the outstanding standby letters of credit issued under the revolving credit facility included a $25,000 letter of credit issued to a hedging counterparty to support a portion of its fuel products hedging program.

6. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2012	December 31, 2011
Borrowings under amended and restated senior secured revolving credit agreement with third-party lenders, interest payments monthly, borrowings due June 2016, weighted average rate of 2.97% for the three months ended March 31, 2012	$ 74,171	$
Borrowings under 2019 Notes, interest at a fixed rate of 9.375%, interest payments semiannually, borrowings due May 2019, effective interest rate of 9.89% for the three months ended March 31, 2012	600,000	600,000
Capital lease obligations, at various interest rates, interest and principal payments quarterly through January 2027	5,857	786
Less unamortized discount on 2019 Notes issued in September 2011	(13,385)	(13,696)
Total long-term debt	666,643	587,090
Less current portion of long-term debt	1,020	551
	$ 665,623	$ 586,539

9 3/8% Senior Notes

On April 21, 2011, in connection with the restructuring of the majority of its outstanding long-term debt, the Company issued and sold $400,000 in aggregate principal amount of 9 3/8% of senior notes due May 1, 2019 (the 2019 Notes issued in April 2011) in a private placement pursuant to Rule 144A under the Securities Act to eligible purchasers at par. The 2019 Notes issued in April 2011 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 Company received proceeds of $388,999 net of underwriters fees and expenses, which the Company used to repay in full borrowings outstanding under its prior term loan, as well as all accrued interest and fees, and for general partnership purposes.

On September 19, 2011, in connection with the Superior Acquisition, the Company issued and sold $200,000 in aggregate principal amount of 9 3/8% of senior notes due May 1, 2019 (the 2019 Notes issued in September 2011) in a private placement pursuant to Rule 144A under the Securities Act to eligible purchasers at a discounted price of 93 percent of par. The 2019 Notes issued in September 2011 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 Company received proceeds of $180,296 net of discount, underwriters fees and expenses, which the Company used to fund a portion of the purchase price of the Superior Acquisition. Because the terms of the 2019 Notes issued in September 2011 are substantially identical to the terms of the 2019 Notes issued in April 2011, in this Quarterly Report, the Company collectively refers to the 2019 Notes issued in April 2011 and the 2019 Notes issued in September 2011 as the 2019 Notes.

Interest on the 2019 Notes is paid semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2011. The 2019 Notes will mature on May 1, 2019, unless redeemed prior to maturity. The 2019 Notes are jointly and severally guaranteed on a senior unsecured basis by all of the Company s current operating subsidiaries and certain of the Company s future operating subsidiaries, with the exception of Calumet Finance Corp. (a wholly owned Delaware corporation that was organized for the sole purpose of being a co-issuer of certain of the Company s indebtedness, including the 2019 Notes). The operating subsidiaries may not sell or otherwise dispose of all or substantially all of their properties or assets to, or consolidate with or merge into, another company if such a sale would cause a default under the indentures governing the 2019 Notes.

The indentures governing the 2019 Notes contain covenants that, among other things, restrict the Company s ability and the ability of certain of the Company s subsidiaries to: (i) sell assets; (ii) pay distributions on, redeem or repurchase the Company s common units or redeem or repurchase its 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 the Company s restricted subsidiaries to the Company; (vii) consolidate, merge or transfer all or substantially all of the Company s assets; (viii) engage in transactions with affiliates and (ix) create unrestricted subsidiaries. These covenants are subject to important exceptions and qualifications. At any time when the 2019 Notes are rated investment grade by either of Moody s Investors Service, Inc. or Standard & Poor s Ratings Services and no Default or Event of Default, each as defined in the indentures governing the 2019 Notes, has occurred and is continuing, many of these covenants will be suspended.

Amended and Restated Senior Secured Revolving Credit Facility

The Company has an $850,000 senior secured revolving credit facility, which is its primary source of liquidity for cash needs in excess of cash generated from operations. The revolving credit facility matures in June 2016 and currently bears interest at a rate equal to prime plus a basis points margin or LIBOR plus a basis points margin, at the Company s option. As of March 31, 2012, the margin was 125 basis points for prime and 250 basis points for LIBOR; however, the margin can fluctuate quarterly based on the Company s average availability for additional borrowings under the revolving credit facility in the preceding calendar quarter.

In addition to paying interest monthly on outstanding borrowings under the revolving credit facility, the Company is required to pay a commitment fee to the lenders under the revolving credit facility with respect to the unutilized commitments thereunder at a rate equal to 0.375% to 0.50% per annum depending on the average daily available unused borrowing capacity. The Company also pays a customary letter of credit fee, including a fronting fee of 0.125% per annum of the stated amount of each outstanding letter of credit, and customary agency fees.

The borrowing capacity at March 31, 2012 under the revolving credit facility was $641,341. As of March 31, 2012, the Company had outstanding borrowings under the revolving credit facility of $74,171, leaving $343,242 available for additional borrowings based on specified availability limitations. Lenders under the revolving credit facility have a first priority lien on the Company s cash, accounts receivable, inventory and certain other personal property.

The revolving credit facility contains various covenants that limit, among other things, the Company s ability to: incur indebtedness; grant liens; dispose of certain assets; make certain acquisitions and investments; redeem or prepay other debt or make other restricted payments such as distributions to unitholders; enter into transactions with affiliates and enter into a merger, consolidation or sale of assets. Further, the revolving credit facility contains one springing financial covenant which provides that only if the Company s availability under the revolving credit facility falls below the greater of (i) 12.5% of the lesser of (a) the Borrowing Base (as defined in the revolving credit agreement) (without giving effect to the LC Reserve (as defined in the revolving credit agreement)) and (b) the credit agreement commitments then in effect and (ii) $46,364, (as increased, upon the effectiveness of the increase in the maximum availability under the revolving credit facility, by the same percentage as the percentage increase in the revolving credit agreement commitments), then the Company will be required to maintain as of the end of each fiscal quarter a Fixed Charge Coverage Ratio (as defined in the revolving credit agreement) of at least 1.0 to 1.0.

Capital Lease Obligations

In connection with the TruSouth Acquisition, the Company has $5,432 of capital leases for a building and equipment.

Maturities of Long-term Debt

As of March 31, 2012, maturities of the Company s long-term debt are as follows:

Year	Maturity
2012	$ 801
2013	876
2014	514
2015	379
2016	74,557
Thereafter	602,901
Total	$ 680,028

7. Derivatives

The Company utilizes derivative instruments to minimize its price risk and volatility of cash flows associated with the purchase of crude oil and natural gas, the sale of fuel products and interest payments. The Company employs various hedging strategies, which are further discussed below. The Company does not hold or issue derivative instruments for trading purposes.

The Company recognizes all derivative instruments at their fair values (see Note 8) as either current assets or current liabilities on the condensed consolidated balance sheets. Fair value includes any premiums paid or received and unrealized gains and losses. Fair value does not include any amounts receivable from or payable to counterparties, or collateral provided to counterparties. Derivative

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asset and liability amounts with the same counterparty are netted against each other for financial reporting purposes. The Company s financial results are subject to the possibility that changes in a derivative s fair value could result in significant ineffectiveness and potentially no longer qualify it for hedge accounting. The Company recorded the following derivative assets and liabilities at their fair values as of March 31, 2012 and December 31, 2011:

	Derivative Assets		Derivative Liabilities	
	March 31, 2012	**December 31, 2011**	**March 31, 2012**	**December 31, 2011**
Derivative instruments designated as hedges:				
Fuel products segment:				
Crude oil swaps (1)	$ 5,805	$ 83,919	$ 176,931	$ 56,041
Gasoline swaps	(70)	(20,605)	(70,620)	(1,596)
Diesel swaps	(4,348)	(4,561)	(86,193)	(22,586)
Jet fuel swaps	(1,310)	1,077	(107,552)	(72,537)
Total derivative instruments designated as hedges	77	59,830	(87,434)	(40,678)
Derivative instruments not designated as hedges:				
Fuel products segment:				
Crude oil swaps (2)			1,697	
Specialty products segment:				
Crude oil swaps				
Natural gas swaps (2)		(1,328)	(4,692)	(1,892)
Interest rate swaps: (3)			(295)	(1,011)
Total derivative instruments not designated as hedges		(1,328)	(3,290)	(2,903)
Total derivative instruments	$ 77	$ 58,502	$ (90,724)	$ (43,581)

(1) This contains $91,937 of superior crude oil hedges. Refer to further discussion below related to these hedges.

(2) The Company enters into natural gas swaps to economically hedge its exposures to price risk related to these commodities in its specialty products segment. The Company has not designated these derivative instruments as cash flow hedges.

(3) The Company refinanced a significant majority of its long-term debt in April 2011 and, as a result, all of its interest rate swaps that were designated as cash flow hedges for the interest payments under the previous term loan facility are no longer designated as cash flow hedges.

The Company accounts for certain derivatives hedging purchases of crude oil, sales of gasoline, diesel and jet fuel and the payment of interest as cash flow hedges. The derivatives hedging sales and purchases are recorded to sales and cost of sales, respectively, in the unaudited condensed consolidated statements of operations upon recording the related hedged transaction in sales or cost of sales. The derivatives designated as hedging payments of interest are recorded in interest expense in the unaudited condensed consolidated statements of operations upon payment of interest. The Company assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

To the extent a derivative instrument is determined to be effective as a cash flow hedge of an exposure to changes in the fair value of a future transaction, the change in fair value of the derivative is deferred in accumulated other comprehensive income (loss), a component of partners capital in the condensed consolidated balance sheets, until the underlying transaction hedged is recognized in the unaudited condensed consolidated statements of operations. Hedge accounting is discontinued when it is determined that a derivative no longer qualifies as an effective hedge or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative instrument no longer qualifies as an effective cash flow hedge, the derivative instrument is subject to the mark-to-market method of accounting prospectively. Changes in the mark-to-market fair value of the derivative instrument are recorded to unrealized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. Unrealized gains and losses related to discontinued cash flow hedges that were previously accumulated in accumulated other comprehensive income (loss) will remain in accumulated other comprehensive income (loss) until the underlying transaction is reflected in earnings, unless it is probable that the hedged forecasted transaction will not occur, at which at that time, associated deferred amounts in accumulated other comprehensive income (loss) are immediately recognized in unrealized gain (loss) on derivative instruments. Effective January 1, 2012, hedge accounting was discontinued prospectively for certain crude oil derivative

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instruments when it was determined that they were no longer highly effective in offsetting changes in the cash flows associated with crude oil purchases at our Superior refinery. The loss of hedge accounting on these derivatives has caused the Company to recognize derivative gains of $27,179 and $29,298 in realized and unrealized gain on derivative instruments, respectively, during the first quarter of 2012.

For derivative instruments not designated as cash flow hedges and the portion of any cash flow hedge that is determined to be ineffective, the change in fair value of the asset or liability for the period is recorded to unrealized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. Upon the settlement of a derivative not designated as a cash flow hedge, the gain or loss at settlement is recorded to realized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. Ineffectiveness is inherent in the hedging of crude oil and fuel products. Due to the volatility in the markets for crude oil and fuel products, the Company is unable to predict the amount of ineffectiveness each period, which has the potential for the future loss of hedge accounting, determined on a derivative by derivative basis or in the aggregate for a specific commodity. Ineffectiveness has resulted, and the loss of hedge accounting would result, in increased volatility in the Company s financial results. However, even though certain derivative instruments may not qualify for hedge accounting, the Company intends to continue to utilize such instruments as management believes such derivative instruments continue to provide the Company with the opportunity to more effectively stabilize product margins and cash flows.

The Company recorded the following amounts in its condensed consolidated balance sheets, unaudited condensed consolidated statements of operations, unaudited condensed statement of other comprehensive loss and its unaudited condensed consolidated statements of partners capital as of, and for the three months ended, March 31, 2012 and 2011 related to its derivative instruments that were designated as cash flow hedges:

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss on Derivatives (Effective Portion)			Amount of (Gain) Loss Reclassified from Accumulated Other Comprehensive Loss into Net Income (Effective Portion)			Amount of Gain (Loss) Recognized in Net Income on Derivatives (Ineffective Portion)	
	Three Months Ended March 31,		Location of (Gain) Loss	Three Months Ended March 31,		Location of Gain (Loss)	Three Months Ended March 31,	
Type of Derivative	**2012**	**2011**		**2012**	**2011**		**2012**	**2011**
Fuel products segment:								
Crude oil swaps	$ 32,690	$ 136,946	Cost of sales	$ (23,711)	$ (19,101)	Unrealized/ Realized	$ 61,629	$ 1,219
Gasoline swaps	(58,267)	(19,110)	Sales	16,306	6,239	Unrealized/ Realized	(18,739)	(461)
Diesel swaps	(68,830)	(96,322)	Sales	6,605	18,113	Unrealized/ Realized	(2,599)	(557)
Jet fuel swaps	(78,647)	(150,583)	Sales	43,602	13,561	Unrealized/ Realized	(4,342)	(476)
Jet fuel collars			Sales			Unrealized/ Realized		
Specialty products segment:								
Crude oil swaps			Cost of sales			Unrealized/ Realized		
Natural gas swaps			Cost of sales			Unrealized/ Realized		
Interest rate swaps:		345	Interest expense		702	Unrealized/ Realized		
Total	$ (173,054)	$ (128,724)		$ 42,802	$ 19,514		$ 35,949	$ (275)

The Company recorded the following gains (losses) in its unaudited condensed consolidated statements of operations and its unaudited condensed consolidated statements of partners capital for the three months ended March 31, 2012 and 2011 related to its derivative instruments not designated as cash flow hedges, including derivative instruments discontinued prospectively as cash flow hedges as of January 1, 2012:

	Amount of Gain (Loss) Recognized in	Amount of Gain (Loss) Recognized

Type of Derivative	Realized Gain on Derivative Instruments Three Months Ended March 31, 2012	2011	in Unrealized Gain (Loss) on Derivative Instruments Three Months Ended March 31, 2012	2011
Fuel products segment:				
Crude oil swaps	$ 427	$	$ 1,697	$
Gasoline swaps				
Diesel swaps				
Jet fuel swaps				
Jet fuel collars		(562)		543
Specialty products segment:				
Crude oil swaps		932		(662)
Natural gas swaps	(1,400)		(1,472)	
Interest rate swaps:	(449)	(199)	716	192
Total	$ (1,422)	$ 171	$ 941	$ 73

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The cash flow impact of the Company s derivative activities is classified primarily as a component of net income in the operating activities section in the unaudited condensed consolidated statements of cash flows.

The Company is exposed to credit risk in the event of nonperformance by its counterparties on these derivative transactions. The Company does not expect nonperformance on any derivative instruments, however, no assurances can be provided. The Company s credit exposure related to these derivative instruments is represented by the fair value of contracts reported as derivative assets. As of March 31, 2012, the Company had one counterparty, in which the derivatives held were a net asset, totaling $77. As of December 31, 2011, the Company had three counterparties in which the derivatives held were net assets, totaling $58,502. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings. The Company executes all of its derivative instruments with large financial institutions that have ratings of at least Baa1 and A- by Moody s and S&P, respectively. In the event of default, the Company would potentially be subject to losses on derivative instruments with mark to market gains. The Company requires collateral from its counterparties when the fair value of the derivatives exceeds agreed upon thresholds in its master derivative contracts with these counterparties. No such collateral was held by the Company as of March 31, 2012 or December 31, 2011. The Company s contracts with these counterparties allow for netting of derivative instruments executed under each contract. Collateral received from counterparties is reported in other current liabilities, and collateral held by counterparties is reported in deposits, on the Company s condensed consolidated balance sheets and not netted against derivative assets or liabilities. As of March 31, 2012 and December 31, 2011, the Company had provided its counterparties with no collateral above the $25,000 letter of credit provided to one counterparty to support crack spread hedging. For financial reporting purposes, the Company does not offset the collateral provided to a counterparty against the fair value of its obligation to that counterparty. Any outstanding collateral is released to the Company upon settlement of the related derivative instrument liability.

Certain of the Company s outstanding derivative instruments are subject to credit support agreements with the applicable counterparties which contain provisions setting certain credit thresholds above which the Company may be required to post agreed-upon collateral, such as cash or letters of credit, with the counterparty to the extent that the Company s mark-to-market net liability, if any, on all outstanding derivatives exceeds the credit threshold amount per such credit support agreement. In certain cases, the Company s credit threshold is dependent upon the Company s maintenance of certain corporate credit ratings with Moody s and S&P. In the event that the Company s corporate credit rating was lowered below its current level by either Moody s or S&P, such counterparties would have the right to reduce the applicable threshold to zero and demand full collateralization of the Company s net liability position on outstanding derivative instruments. As of March 31, 2012 and December 31, 2011, there was a net asset of $77 and $3,561, respectively, associated with the Company s outstanding derivative instruments subject to such requirements. In addition, the majority of the credit support agreements covering the Company s outstanding derivative instruments also contain a general provision stating that if the Company experiences a material adverse change in its business, in the reasonable discretion of the counterparty, the Company s credit threshold could be lowered by such counterparty. The Company does not expect that it will experience a material adverse change in its business.

The effective portion of the cash flow hedges classified in accumulated other comprehensive loss is $83,158 as of March 31, 2012. The effective portion of the hedges classified in accumulated other comprehensive income was $47,094 as of December 31, 2011. Absent a change in the fair market value of the underlying transactions, the following will be reclassified to earnings by December 31, 2014 with balances being recognized as follows:

Year	Accumulated Other Comprehensive Loss
2012	$ (73,024)
2013	(9,297)
2014	(837)
Total	$ (83,158)

Based on fair values as of March 31, 2012, the Company expects to reclassify $77,080 of net losses on derivative instruments from accumulated other comprehensive loss to earnings during the next twelve months due to actual crude oil purchases and gasoline, diesel and jet fuel sales. However, the amounts actually realized will be dependent on the fair values as of the dates of settlement.

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Crude Oil Swap and Collar Contracts Specialty Products Segment

The Company is exposed to fluctuations in the price of crude oil, its principal raw material. Historically, the Company has utilized combinations of options and swaps to manage crude oil price risk and volatility of cash flows in its specialty products segment. These derivatives may be designated as cash flow hedges of the future purchase of crude oil if they meet the hedge criteria. The Company s general policy is to enter into crude oil derivative contracts that mitigate the Company s exposure to price risk associated with crude oil purchases related to specialty products production (for up to 70% of expected purchases). While the Company s policy generally requires that these derivative instruments be short term in nature and expire within three to nine months from execution, the Company may execute derivative contracts for up to two years forward, if a change in the risks supports lengthening the Company s position. As of March 31, 2012 and December 31, 2011, the Company did not have any crude oil derivatives related to future crude oil purchases in its specialty products segment.

Crude Oil Swap Contracts Fuel Products Segment

The Company is exposed to fluctuations in the price of crude oil, its principal raw material. The Company utilizes swap contracts to manage crude oil price risk and volatility of cash flows in its fuel products segment. The Company s policy is generally to enter into crude oil swap contracts for a period no greater than five years forward and for no more than 75% of crude oil purchases used in fuels production. At March 31, 2012, the Company had the following derivatives related to crude oil purchases in its fuel products segment, all of which are designated as cash flow hedges.

Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
Second Quarter 2012	3,017,500	33,159	$ 86.23
Third Quarter 2012	2,852,000	31,000	84.83
Fourth Quarter 2012	2,622,000	28,500	86.73
Calendar Year 2013	5,417,000	14,841	99.57
Calendar Year 2014	1,000,000	2,740	90.55
Totals	14,908,500		
Average price			$ 91.19

At March 31, 2012, the Company had the following derivatives related to crude oil purchases in its fuel products segment, none of which are designated as cash flow hedges.

Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
Second Quarter 2012	60,000	659	$ 101.52
Calendar Year 2013	1,091,000	2,989	102.21
Totals	1,151,000		
Average price			$ 102.18

At December 31, 2011, the Company had the following derivatives related to crude oil purchases in its fuel products segment, all of which are designated as cash flow hedges.

Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
First Quarter 2012	2,866,500	31,500	$ 85.34

Second Quarter 2012	2,775,500	30,500	84.83
Third Quarter 2012	2,852,000	31,000	84.83
Fourth Quarter 2012	2,622,000	28,500	86.73
Calendar Year 2013	4,420,000	12,110	97.93
Calendar Year 2014	1,000,000	2,740	90.55
Totals	16,536,000		
Average price			$ 89.07

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Fuel Products Swap Contracts

The Company is exposed to fluctuations in the prices of gasoline, diesel and jet fuel. The Company utilizes swap contracts to manage diesel, gasoline and jet fuel price risk and volatility of cash flows in its fuel products segment. The Company s policy is generally to enter into diesel, jet fuel and gasoline swap contracts for a period no longer than five years forward and for no more than 75% of forecasted fuel sales.

Diesel Swap Contracts

At March 31, 2012, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges.

Diesel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2012	819,000	9,000	$ 110.09
Third Quarter 2012	1,150,000	12,500	105.48
Fourth Quarter 2012	966,000	10,500	110.11
Calendar Year 2013	2,922,000	8,005	125.34
Totals	5,857,000		
Average price			$ 116.80

At December 31, 2011, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges.

Diesel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2012	546,000	6,000	$ 118.07
Second Quarter 2012	819,000	9,000	110.09
Third Quarter 2012	1,150,000	12,500	105.48
Fourth Quarter 2012	966,000	10,500	110.11
Calendar Year 2013	1,831,000	5,016	123.20
Totals	5,312,000		
Average price			$ 114.44

Jet Fuel Swap Contracts

At March 31, 2012, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges.

Jet Fuel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2012	1,046,500	11,500	$ 98.47
Third Quarter 2012	782,000	8,500	99.78
Fourth Quarter 2012	736,000	8,000	104.79
Calendar Year 2013	2,498,000	6,844	127.09
Calendar Year 2014	1,000,000	2,740	115.56

Totals	6,062,500	
Average price		$ 114.02

At December 31, 2011, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges.

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Jet Fuel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2012	1,274,000	14,000	$ 97.97
Second Quarter 2012	1,046,500	11,500	98.47
Third Quarter 2012	782,000	8,500	99.78
Fourth Quarter 2012	736,000	8,000	104.79
Calendar Year 2013	2,044,000	5,600	125.13
Calendar Year 2014	1,000,000	2,740	115.56
Totals	6,882,500		
Average price			$ 109.60

Gasoline Swap Contracts

At March 31, 2012, the Company had the following derivatives related to gasoline sales in its fuel products segment, all of which are designated as cash flow hedges.

Gasoline Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2012	1,212,000	13,319	$ 109.48
Third Quarter 2012	920,000	10,000	102.48
Fourth Quarter 2012	920,000	10,000	102.48
Calendar Year 2013	1,088,000	2,981	114.18
Totals	4,140,000		
Average price			$ 107.60

At December 31, 2011, the Company had the following derivatives related to gasoline sales in its fuel products segment, all of which are designated as cash flow hedges.

Gasoline Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2012	1,046,500	11,500	$ 100.72
Second Quarter 2012	910,000	10,000	102.48
Third Quarter 2012	920,000	10,000	102.48
Fourth Quarter 2012	920,000	10,000	102.48
Calendar Year 2013	545,000	1,493	107.11
Totals	4,341,500		
Average price			$ 102.63

Natural Gas Swap Contracts

Natural gas purchases comprise a significant component of the Company s cost of sales; therefore, changes in the price of natural gas also significantly affect its profitability and cash flows. The Company utilizes swap contracts to manage natural gas price risk and volatility of cash flows. The Company s policy is generally to enter into natural gas derivative contracts to hedge no more than 75% of its anticipated natural gas requirement for a period no greater than three years forward. At March 31, 2012, the Company had the following natural gas derivatives related to natural gas purchases in its specialty products segment, none of which were designated as cash flow hedges.

Natural Gas Swap Contracts by Expiration Dates	**MMBtu**	**$/MMBtu**
Second Quarter 2012	1,200,000	$ 3.93
Third Quarter 2012	1,200,000	4.03
Fourth Quarter 2012	600,000	4.08
Totals	3,000,000	
Average price		$ 4.00

At December 31, 2011, the Company had the following natural gas derivatives related to natural gas purchases in its specialty products segment, none of which were designated as cash flow hedges.

Natural Gas Swap Contracts by Expiration Dates	MMBtu	$/MMBtu
First Quarter 2012	1,200,000	$ 3.90
Second Quarter 2012	1,200,000	3.93
Third Quarter 2012	1,200,000	4.03
Fourth Quarter 2012	600,000	4.08
Totals	4,200,000	
Average price		$ 3.97

Interest Rate Swap Contracts

The Company s profitability and cash flows are affected by changes in interest rates, specifically LIBOR and prime rates. The primary purpose of the Company s interest rate risk management activities is to hedge its exposure to changes in interest rates. Historically, the Company s policy has been to enter into interest rate swap agreements to hedge up to 75% of its interest rate risk related to variable rate debt. With the issuances during 2011 of the 2019 Notes, which constitute fixed rate debt, the Company does not expect to enter into additional hedges (beyond those listed below) to fix its interest rates. The following table summarizes the Company s outstanding interest rate swaps as of March 31, 2012:

Interest Rate Swap Contract	Effective Date	Maturity Date	Notional Amount	Swap Contract	Weighted Average Fixed Rate
2006 Swap (1)	June 9, 2006	December 10, 2012	$ 39,950	3 Month LIBOR	5.44%
2006 Swap (1)	December 10, 2007	December 10, 2012	39,950	3 Month LIBOR plus 1.98% spread	5.44%

(1) Due to the repayment of $19,000 of the outstanding balance of the Company s then existing term loan facility in August 2007 and subsequent refinancing of the remaining term loan balance, this interest rate swap contract was not designated as a cash flow hedge of the future payment of interest. The entire change in the fair value of this interest rate swap was recorded to unrealized loss on derivative instruments in the consolidated statements of operations. In the first quarter of 2008, the Company fixed its unrealized loss on this interest rate swap derivative instrument by entering into an offsetting interest rate swap expiring December 2012, which is not designated as a cash flow hedge. The notional amount is based upon a fixed schedule set forth in the confirmation, and the amount disclosed is the notional amount as of March 31, 2012.

8. Fair Value Measurements

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Observable inputs are from sources independent of the Company. Unobservable inputs reflect the Company s assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. These tiers include the following:

Level 1 inputs include observable unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 inputs include other than quoted prices in active markets that are either directly or indirectly observable

Level 3 inputs include unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions

In determining fair value, the Company uses various valuation techniques and prioritizes the use of observable inputs. The availability of observable inputs varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded and other characteristics particular to the instrument. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants and the valuation does not require significant management judgment. For other financial instruments, pricing inputs are less observable in the marketplace and may require management judgment.

Recurring Fair Value Measurements

Derivative Assets and Liabilities

Derivative instruments are reported in the accompanying unaudited condensed consolidated financial statements at fair value. The Company s derivative instruments consist of over-the-counter (OTC) contracts, which are not traded on a public exchange. Substantially all of the Company s derivative instruments are with counterparties that have long-term credit ratings of at least Baa1 and A- by Moody s and S&P, respectively.

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To estimate the fair values of the Company s derivative instruments, the Company uses the market approach. Under this approach, the fair values of the Company s derivative instruments for crude oil, gasoline, diesel, jet fuel, natural gas and interest rates are determined primarily based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Generally, the Company obtains this data through surveying its counterparties and performing various analytical tests to validate the data. In situations where the Company obtains inputs via quotes from its counterparties, it verifies the reasonableness of these quotes via similar quotes from another counterparty as of each date for which financial statements are prepared. The Company also includes an adjustment for non-performance risk in the recognized measure of fair value of all of the Company s derivative instruments. The adjustment reflects the full credit default spread (CDS) applied to a net exposure by counterparty. When the Company is in a net asset position, it uses its counterparty s CDS, or a peer group s estimated CDS when a CDS for the counterparty is not available. The Company uses its own peer group s estimated CDS when it is in a net liability position. As a result of applying the applicable CDS at March 31, 2012, the Company s asset was reduced by $28 and the liability was reduced by approximately $2,442. As a result of applying the CDS at December 31, 2011, the Company s asset was reduced by $1,297 and the liability was reduced by approximately $165.

Based on the use of various unobservable inputs, principally non-performance risk and unobservable inputs in forward years for crude oil, gasoline, jet fuel, diesel and natural gas, the Company has categorized these derivative instruments as Level 3. Significant increases (decreases) in any of those unobservable inputs in isolation would result in a significantly lower (higher) fair value measurement. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative instruments it holds. See Note 7 for further information on derivative instruments.

Pension Assets

Pension assets are reported at fair value using quoted market prices in the accompanying unaudited condensed consolidated financial statements. The Company s investments associated with its Pension Plan (as such term is hereinafter defined) primarily consist of (i) cash and cash equivalents, (ii) mutual funds that are publicly traded and (iii) a commingled fund. The mutual funds are publicly traded and market prices are readily available; thus, these investments are categorized as Level 1. The commingled fund is categorized as Level 2 because inputs used in its valuation are not quoted prices in active markets that are indirectly observable and is valued at the net asset value of shares held by the Pension Plan at quarter end.

Hierarchy of Recurring Fair Value Measurements

The Company s recurring assets and liabilities measured at fair value at March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash and cash equivalents	$ 6,416	$	$	$ 6,416	$ 64	$	$	$ 64
Derivative assets:								
Crude oil swaps			5,805	5,805			83,919	83,919
Gasoline swaps			(70)	(70)			(20,605)	(20,605)
Diesel swaps			(4,348)	(4,348)			(4,561)	(4,561)
Jet fuel swaps			(1,310)	(1,310)			1,077	1,077
Natural gas swaps							(1,328)	(1,328)
Total derivative assets			77	77			58,502	58,502
Pension plan investments	34,560	2,419		36,979	33,580	2,462		36,042
Total recurring assets at fair value	$ 40,976	$ 2,419	$ 77	$ 43,472	$ 33,644	$ 2,462	$ 58,502	$ 94,608
Liabilities:								
Derivative liabilities:								
Crude oil swaps	$	$	$ 178,628	$ 178,628	$	$	$ 56,041	$ 56,041
Gasoline swaps			(70,620)	(70,620)			(1,596)	(1,596)
Diesel swaps			(86,193)	(86,193)			(22,586)	(22,586)
Jet fuel swaps			(107,552)	(107,552)			(72,537)	(72,537)

Natural gas swaps			(4,692)	(4,692)			(1,892)	(1,892)
Interest rate swaps			(295)	(295)			(1,011)	(1,011)
Total derivative liabilities			(90,724)	(90,724)			(43,581)	(43,581)
Total recurring liabilities at fair value	$	$	$ (90,724)	$ (90,724)	$	$	$ (43,581)	$ (43,581)

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The table below sets forth a summary of net changes in fair value of the Company s Level 3 financial assets and liabilities for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Fair value at January 1,	$ 14,921	$ (32,814)
Realized gain on derivative instruments	(9,424)	(386)
Unrealized gain (loss) on derivative instruments	26,044	(417)
Change in fair value of cash flow hedges	(173,054)	(128,724)
Settlements	50,866	15,595
Transfers in (out) of Level 3		
Fair value at March 31,	$ (90,647)	$ (146,746)
Total gain (loss) included in net income attributable to changes in unrealized gain (loss) relating to financial assets and liabilities held as of March 31,	$ 26,044	$ (417)

All settlements from derivative instruments that are deemed effective and were designated as cash flow hedges are included in sales for gasoline, diesel and jet fuel derivatives, cost of sales for crude oil and natural gas derivatives, and interest expense for interest rate derivatives in the unaudited condensed consolidated financial statements of operations in the period that the hedged cash flow occurs. Any ineffectiveness associated with these derivative instruments are recorded in earnings immediately in unrealized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. All settlements from derivative instruments not designated as cash flow hedges are recorded in realized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. See Note 7 for further information on derivative instruments.

Nonrecurring Fair Value Measurements

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. Refer to Note 3 for the fair values of assets acquired and liabilities assumed in connection with the Missouri and TruSouth Acquisitions.

The Company reviews for goodwill impairment annually on October 1 and whenever events or changes in circumstances indicate its carrying value may not be recoverable. The fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, corporate tax structure and product offerings. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the reporting unit. These assets would generally be classified within Level 3, in the event that the Company were required to measure and record such assets at fair value within its unaudited condensed consolidated financial statements.

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including definite-lived intangible assets and property plant and equipment, when events or circumstances warrant such a review. Fair value is determined primarily using anticipated cash flows assumed by a market participant discounted at a rate commensurate with the risk involved and these assets would generally be classified within Level 3, in the event that the Company were required to measure and record such assets at fair value within its unaudited condensed consolidated financial statements.

Estimated Fair Value of Financial Instruments

Cash

The carrying values of cash and cash equivalents are considered to be representative of their respective fair values, due to the short maturity of these instruments.

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Debt

The estimated fair value of long-term debt at March 31, 2012 and December 31, 2011 consists primarily of the 2019 Notes and borrowings under the revolving credit facility. The fair value of the Company s 2019 Notes were based upon using quoted market prices in an active market and are classified as Level 1. The carrying value of borrowings under the Company s revolving credit facility approximates its fair value as determined by discounted cash flows and is classified as Level 3. Capital lease obligations approximate their fair value as determined by discounted cash flows and are classified as Level 3.

The Company s carrying and estimated fair value of the Company s financial instruments, carried at adjusted historical cost, at March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Instrument:				
2019 Notes	$ 628,500	$ 586,615	$ 591,750	$ 586,304
Revolving credit facility	74,171	74,171		
Capital lease and other obligations	5,857	5,857	786	786

9. Partners Capital

The Company s distribution policy is defined in its partnership agreement. For the three months ended March 31, 2012 and 2011, the Company made distributions of $28,199 and $16,948, respectively, to its partners. For the three months ended March 31, 2012 and 2011 the general partner was allocated $523 and $0, respectively, in incentive distribution rights.

10. Unit-Based Compensation

A summary of the Company s nonvested phantom units as of March 31, 2012 and the changes during the three months ended March 31, 2012 is presented below:

Nonvested Phantom Units	Grant	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2011	325,096	$ 20.82
Granted	92,034	23.65
Vested	(79,629)	22.28
Forfeited	(4,632)	21.60
Nonvested at March 31, 2012	332,869	$ 21.24

For the three months ended March 31, 2012 and 2011, compensation expense of $144 and $629, respectively, was recognized in the unaudited condensed consolidated statements of operations related to vested phantom unit grants. As of March 31, 2012 and 2011, there was a total of $7,070 and $1,888, respectively, of unrecognized compensation costs related to nonvested phantom unit grants. These costs are expected to be recognized over a weighted-average period of approximately three years.

11. Employee Benefit Plans

The components of net periodic pension and other post retirement benefits cost (credit) for the three months ended March 31, 2012 and 2011 were as follows:

	For the Three Months Ended March 31, 2012		2011	
	Pension Benefits	Other Post Retirement Employee Benefits	Pension Benefits	Other Post Retirement Employee Benefits
Service cost	$ 225	$ 131	$ 24	$
Interest cost	622	89	333	5
Expected return on assets	(598)		(264)	
Amortization of net (gain) loss	144	(1)	70	(1)
Prior service credit		(9)		(9)
Net periodic benefit cost (credit)	$ 393	$ 210	$ 163	$ (5)

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At March 31, 2012, the Company s investments associated with its non contributory defined benefit plans (the Pension Plan) primarily consist of (i) cash and cash equivalents, (ii) mutual funds that are publicly traded and (iii) a commingled fund. The mutual funds are publicly traded and market prices of the mutual funds are readily available; thus, these investments are categorized as Level 1. The commingled fund is categorized as Level 2 because inputs used in its valuation are not quoted prices in active markets that are indirectly observable and is valued at the net asset value of the shares held by the Pension Plan at quarter end. The Company s Pension Plan assets measured at fair value at March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012 Pension Assets		December 31, 2011 Pension Assets	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	$ 22,524	$	$ 22,243	$
Equity	4,517		4,000	
Foreign equities	774		691	
Commingled fund		2,419		2,462
Fixed income	6,745		6,646	
	$ 34,560	$ 2,419	$ 33,580	$ 2,462

12. Segments and Related Information

a. Segment Reporting

The Company has two reportable segments: Specialty Products and Fuel Products. The Specialty Products segment produces a variety of lubricating oils, solvents, waxes and asphalt and other by-products. These products are sold to customers who purchase these products primarily as raw material components for basic automotive, industrial and consumer goods. The Fuel Products segment produces a variety of fuel and fuel-related products including gasoline, diesel, jet fuel and heavy fuel oils. The results of the operations from such assets acquired as a result of the Superior Acquisition have been included in the both segments since the date of acquisition, September 30, 2011. The results of operations from such assets acquired as a result of the Missouri and TruSouth Acquisitions have been included in the specialty products segment since their dates of acquisition, January 3, 2012 and January 6, 2012, respectively.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in Note 2 Summary of Significant Accounting Policies in Part II Item 8 Financial Statements and Supplementary Data of the Company s 2011 Annual Report except that the Company evaluates segment performance based on operating income (loss). The Company accounts for intersegment sales and transfers at cost plus a specified mark-up. Reportable segment information is as follows:

Three Months Ended March 31, 2012	Specialty Products	Fuel Products	Combined Segments	Eliminations	Consolidated Total
Sales:					
External customers	$ 562,495	$ 607,091	$ 1,169,586	$	$ 1,169,586
Intersegment sales	309,697	9,187	318,884	(318,884)	
Total sales	$ 872,192	$ 616,278	$ 1,488,470	$ (318,884)	$ 1,169,586
Depreciation and amortization	18,694	4,452	23,146		23,146
Operating income	28,694	6,320	35,014		35,014
Reconciling items to net income:					
Interest expense					(18,584)
Gain on derivative instruments					35,468
Other					118
Income tax expense					(93)

Net income					$ 51,923
Capital expenditures	$ 7,542	$ 2,193	$ 9,735	$	$ 9,735

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