

Calumet Specialty Products Partners, L.P.

Form 10-K

March 04, 2008

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

Form 10-K

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal period ended December 31, 2007
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR THE SECURITIES EXCHANGE
ACT OF 1934**

Commission File number 000-51734

Calumet Specialty Products Partners, L.P.
(Exact Name of Registrant as Specified in Its Charter)

Delaware <i>(State or Other Jurisdiction of Incorporation or Organization)</i>	2911 <i>(Primary Standard Industrial Classification Code Number)</i>	37-1516132 <i>(I.R.S. Employer Identification Number)</i>
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**2780 Waterfront Pkwy E. Drive
Suite 200**

**Indianapolis, Indiana 46214
(317) 328-5660**

*(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)*

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common units representing limited partner interests	The NASDAQ Stock Market LLC

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE.**

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Non-accelerated filer Smaller reporting company
(Do not check if a 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

The aggregate market value of the common units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the common units outstanding, for this purpose, as if they may be affiliates of the registrant) was approximately \$355.0 million on June 30, 2007, based on \$48.60 per unit, the closing price of the common units as reported on the NASDAQ Global Market on such date.

At February 29, 2008, there were 19,166,000 common units and 13,066,000 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE.

**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
FORM 10-K 2007 ANNUAL REPORT**

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Some of the information in this Annual Report may contain forward-looking statements. These statements can be identified by the use of forward-looking terminology including may, believe, expect, anticipate, estimate, continue, or other similar words. The statements regarding (i) the Shreveport refinery expansion project's expected completion date, the estimated cost, and the resulting increases in production levels, (ii) expected settlements with the Louisiana Department of Environmental Quality (LDEQ) or other environmental liabilities, (iii) the expected purchase price, goodwill, and future benefits and risks of the Penreco acquisition, (iv) future compliance with our debt covenants and (v) the probability of the achievement of a certain financial performance target related to executive compensation programs, as well as other matters discussed in this Form 10-K that are not purely historical data, are forward-looking statements. These statements discuss future expectations or state other forward-looking information and involve risks and uncertainties. When considering these forward-looking statements, unitholders should keep in mind the risk factors and other cautionary statements included in this Annual Report. The risk factors and other factors noted throughout this Form 10-K could cause our actual results to differ materially from those contained in any forward-looking statement. These factors include, but are not limited to:

the overall demand for specialty hydrocarbon products, fuels and other refined products;

our ability to produce specialty products and fuels that meet our customers' unique and precise specifications;

the results of our hedging activities;

the availability of, and our ability to consummate, acquisition or combination opportunities;

labor relations;

our access to capital to fund expansions or acquisitions and our ability to obtain debt or equity financing on satisfactory terms;

successful integration and future performance of acquired assets or businesses;

environmental liabilities or events that are not covered by an indemnity, insurance or existing reserves;

maintenance of our credit rating and ability to receive open credit from our suppliers;

demand for various grades of crude oil and resulting changes in pricing conditions;

fluctuations in refinery capacity;

the effects of competition;

continued creditworthiness of, and performance by, counterparties;

the impact of crude oil and crack spread price fluctuations and rapid increases or decreases;

the impact of current and future laws, rulings and governmental regulations;

shortages or cost increases of power supplies, natural gas, materials or labor;

weather interference with business operations or project construction;

fluctuations in the debt and equity markets; and

general economic, market or business conditions.

Other factors described herein, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Annual Report on Form 10-K. Please read Item 1A Risk Factors Related to Our Business and Item 7A Quantitative and Qualitative Disclosures About Market Risk. We will not update these statements unless securities laws require us to do so.

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References in this Annual Report on Form 10-K to Calumet Specialty Products Partners, Calumet, the Partnership, the Company, we, our, us or like terms, when used in a historical context prior to January 31, 2006, refer to the assets and liabilities of Calumet Lubricants Co., Limited Partnership and its subsidiaries of which substantially all such assets and liabilities were contributed to Calumet Specialty Products Partners, L.P. and its subsidiaries upon the completion of our initial public offering. When used in the present tense or prospectively, those terms refer to Calumet Specialty Products Partners, L.P. and its subsidiaries. References to Predecessor in this Form 10-K refer to Calumet Lubricants Co., Limited Partnership. The results of operations for the year ended December 31, 2006 for Calumet include the results of operations of the Predecessor for the period of January 1, 2006 through January 31, 2006. References in this Annual Report on Form 10-K to our general partner refer to Calumet GP, LLC.

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PART I

Items 1 and 2. *Business and Properties*

Overview

We are a leading independent producer of high-quality, specialty hydrocarbon products in North America. Our business is organized into two segments: specialty products and fuel products. In our specialty products segment, we process crude oil and other feedstocks into a wide variety of customized lubricating oils, solvents and waxes. Our specialty products are sold to domestic and international customers who purchase them primarily as raw material components for basic industrial, consumer and automotive goods. In our fuel products segment, we process crude oil into a variety of fuel and fuel-related products including unleaded gasoline, diesel and jet fuel. In connection with our production of specialty products and fuel products, we also produce asphalt and a limited number of other by-products which are allocated to either the specialty products or fuel products segment. For the year ended December 31, 2007, approximately 63.6% of our gross profit was generated from our specialty products segment and approximately 36.4% of our gross profit was generated from our fuel products segment. The acquisition of Penreco on January 3, 2008 expanded our specialty products offering and customer base. For additional discussion of this acquisition, please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Overview.

Our operating assets, including those acquired in the acquisition of Penreco, consist of our:

Princeton Refinery. Our Princeton refinery, located in northwest Louisiana and acquired in 1990, produces specialty lubricating oils, including process oils, base oils, transformer oils and refrigeration oils that are used in a variety of industrial and automotive applications. The Princeton refinery has aggregate crude oil throughput capacity of approximately 10,000 barrels per day (bpd) and had average daily crude oil throughput of approximately 7,200 bpd for the year ended December 31, 2007.

Cotton Valley Refinery. Our Cotton Valley refinery, located in northwest Louisiana and acquired in 1995, produces specialty solvents that are used principally in the manufacture of paints, cleaners and automotive products. The Cotton Valley refinery has aggregate crude oil throughput capacity of approximately 13,500 bpd and had average daily crude oil throughput of approximately 6,800 bpd for the year ended December 31, 2007.

Shreveport Refinery. Our Shreveport refinery, located in northwest Louisiana and acquired in 2001, produces specialty lubricating oils and waxes, as well as fuel products such as gasoline, diesel and jet fuel. The Shreveport refinery currently has aggregate crude oil throughput capacity of approximately 42,000 bpd and had average daily crude oil throughput of approximately 34,400 bpd for the year ended December 31, 2007.

Karns City Facility. Our Karns City facility, located in western Pennsylvania and acquired in the Penreco acquisition, produces white mineral oils, petrolatums, solvents, gelled hydrocarbons, cable fillers, and natural petroleum sulfonates. The Karns City facility currently has aggregate base oil throughput capacity of approximately 5,500 bpd.

Dickinson Facility. Our Dickinson facility, located in southeastern Texas and acquired in the Penreco acquisition, produces white mineral oils, compressor lubricants and natural petroleum sulfonates. The Dickinson facility currently has aggregate base oil throughput capacity of approximately 1,300 bpd.

Distribution and Logistics Assets. We own and operate a terminal in Burnham, Illinois with a storage capacity of approximately 150,000 barrels that facilitates the distribution of product in the Upper Midwest and East Coast regions of the United States and in Canada. In addition, we lease approximately 1,400 rail cars to receive crude oil or distribute our products throughout the United States and Canada. We also have approximately 4.5 million barrels of aggregate finished product storage capacity at our refineries.

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Business Strategies

Our management team is dedicated to increasing the amount of cash available for distribution on each limited partner unit by executing the following strategies:

Concentrate on stable cash flows. We intend to continue to focus on businesses and assets that generate stable cash flows. Approximately 63.6% of our gross profit for the year ended December 31, 2007 was generated by the sale of specialty products, a segment of our business which is characterized by stable customer relationships due to their requirements for highly specialized products. Historically, we have been able to reduce our exposure to crude oil price fluctuations in this segment through our ability to pass on incremental feedstock costs to our specialty products customers and through our crude oil hedging program. In our fuel products business, which accounted for 36.4% of our gross profit for the year ended December 31, 2007, we seek to mitigate our exposure to fuel margin volatility by maintaining a long-term hedging program. We believe the diversity of our products, our broad customer base and our hedging activities contribute to the stability of our cash flows.

Develop and expand our customer relationships. Due to the specialized nature of, and the long lead-time associated with, the development and production of many of our specialty products, our customers have an incentive to continue their relationships with us. We believe that our larger competitors do not work with customers as we do from product design to delivery for smaller volume products like ours. We intend to continue to assist our existing customers in expanding their product offerings as well as marketing specialty product formulations to new customers. By striving to maintain our long-term relationships with our existing customers and to add new customers, we seek to limit our dependence on a small number of customers. Our Penreco acquisition provided us with an increase of approximately 1,400 customers and will enhance our ability to expand our product offering and to meet our customers' needs.

Enhance profitability of our existing assets. We will continue to evaluate opportunities to improve our existing asset base to increase our throughput, profitability and cash flows. Following each of our asset acquisitions, we have undertaken projects designed to increase the profitability of our acquired assets. We intend to further increase the profitability of our existing asset base through various measures which include changing the product mix of our processing units, debottlenecking and expanding units as necessary to increase throughput, restarting idle assets and reducing costs by improving operations. For example, in late 2004 at the Shreveport refinery we recommissioned certain of its previously idled fuels production units, refurbished existing fuels production units, converted existing units to improve gasoline blending profitability and expanded capacity to approximately 42,000 bpd to increase lubricating oil and fuels production. Also, in December 2006, we commenced construction of an expansion project at our Shreveport refinery, scheduled for completion in the first quarter of 2008 with production ramping up during the second quarter of 2008, to increase its aggregate crude oil throughput capacity to approximately 57,000 bpd. For additional discussion of this project, please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Expenditures.

Pursue strategic and complementary acquisitions. Since 1990, our management team has demonstrated the ability to identify opportunities to acquire refineries whose operations we can enhance and whose profitability we can improve. In the future, we intend to continue to make strategic acquisitions of refineries that offer the opportunity for operational efficiencies and the potential for increased utilization and expansion. In addition, we may pursue selected acquisitions in new geographic or product areas to the extent we perceive similar opportunities. For example, on January 3, 2008, we acquired Penreco from ConocoPhillips Company (ConocoPhillips) and M.E. Zukerman Specialty Oil Corporation for a purchase price of approximately

\$275 million, excluding post-closing purchase price adjustments. For additional discussion of this project, please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Overview.

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Competitive Strengths

We believe that we are well positioned to execute our business strategies successfully based on the following competitive strengths:

We offer our customers a diverse range of specialty products. We offer a wide range of over 350 specialty products. We believe that our ability to provide our customers with a more diverse selection of products than our competitors generally gives us an advantage in competing for new business. We believe that we are the only specialty products manufacturer that produces all four of naphthenic lubricating oils, paraffinic lubricating oils, waxes and solvents. A contributing factor to our ability to produce numerous specialty products is our ability to ship products between our facilities for product upgrading in order to meet customer specifications. Our acquisition of Penreco, which offers approximately 400 specialty products, will further diversify our specialty products offering.

We have strong relationships with a broad customer base. We have long-term relationships with many of our customers, and we believe that we will continue to benefit from these relationships. Our customer base includes over 900 companies and we are continually seeking new customers. The acquisition of Penreco added approximately 1,400 companies to our existing customer base. No single customer accounts for more than 10% of our specialty products sales.

Our facilities have advanced technology. Our facilities are equipped with advanced, flexible technology that allows us to produce high-grade specialty products and to produce fuel products that comply with new low sulfur fuel regulations. For example, our Shreveport and Cotton Valley refineries have the capability to make all of their low sulfur diesel into ultra low sulfur diesel and all of the Shreveport refinery's gasoline production meets low sulfur standards set by the EPA. Also, unlike larger refineries which lack some of the equipment necessary to achieve the narrow distillation ranges associated with the production of specialty products, our operations are capable of producing a wide range of products tailored to our customers' needs. We have also upgraded the operations of many of our assets through our investment in advanced, computerized refinery process controls.

We have an experienced management team. Our management has a proven track record of enhancing value through the acquisition, exploitation and integration of refining assets and the development and marketing of specialty products. Our senior management team, the majority of whom have been working together since 1990, has an average of over 20 years of industry experience. Our team's extensive experience and contacts within the refining industry provide a strong foundation and focus for managing and enhancing our operations, for accessing strategic acquisition opportunities and for constructing and enhancing the profitability of new assets.

Our Operating Assets

General

We own and operate refining assets in northwest Louisiana, which consist of: the Princeton refinery, the Cotton Valley refinery and the Shreveport refinery as well as a terminal in Burnham, Illinois. Additionally, on January 3, 2008, we acquired facilities in Karns City, Pennsylvania and Dickinson, Texas in the Penreco acquisition.

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The following table sets forth information about our combined refinery operations. Refinery production volume differs from sales volume due to changes in inventory.

	Calumet		Predecessor
	Year Ended December 31,		
	2007	2006	2005
Total sales volume (bpd)(1)	47,663	50,345	46,953
Total feedstock runs (bpd)(2)	48,354	51,598	50,213
Refinery production (bpd)			
Specialty products:			
Lubricating oils	10,734	11,436	11,556
Solvents	5,104	5,361	4,422
Waxes	1,177	1,157	1,020
Fuels	1,951	2,038	2,354
Asphalt and other by-products	6,157	6,596	6,313
Total	25,123	26,588	25,665
Fuel products:			
Gasoline	7,780	9,430	8,278
Diesel	5,736	6,823	8,891
Jet fuel	7,749	6,911	5,080
By-products	1,348	461	417
Total	22,613	23,625	22,666
Total refinery production(3)	47,736	50,213	48,331

(1) Total sales volume includes sales from the production of our refineries and sales of inventories.

(2) Total feedstock runs represents the barrels per day of crude oil and other feedstocks processed at our refineries. The decrease in feedstock runs for the year ended December 31, 2007 was due to unscheduled downtime of certain operating units at our Shreveport refinery as well as reduced production as a result of incremental refining economics associated with the rising cost of crude oil.

(3) Total refinery production represents the barrels per day of specialty products and fuel products yielded from processing crude oil and other feedstocks at our refineries. The difference between total refinery production and total feedstock runs is primarily a result of the time lag between the input of feedstock and production of end products and volume loss.

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Set forth below is information regarding sales of our principal products.

	Calumet		Predecessor
	Year Ended December 31,		
	2007	2006	2005
	(In millions)		
Sales of specialty products:			
Lubricating oils	\$ 478.1	\$ 509.9	\$ 394.4
Solvents	199.8	201.9	145.0
Waxes	61.6	61.2	43.6
Fuels	52.5	41.3	44.0
Asphalt and other by-products	74.7	98.8	76.3
Total	\$ 866.7	\$ 913.1	\$ 703.3
Sales of fuel products:			
Gasoline	\$ 307.1	\$ 336.7	\$ 223.6
Diesel	203.7	207.1	230.9
Jet fuel	225.9	176.4	121.3
By-products	34.4	7.7	10.0
Total	\$ 771.1	\$ 727.9	\$ 585.8
Consolidated sales	\$ 1,637.8	\$ 1,641.0	\$ 1,289.1

Princeton Refinery

The Princeton refinery, located on a 208-acre site in Princeton, Louisiana, has aggregate crude oil throughput capacity of 10,000 bpd and is currently processing naphthenic crude oil into lubricating oils, high sulfur diesel and asphalt. The high sulfur diesel may be blended to produce certain lubricating oils, transported to the Shreveport refinery for further processing into ultra low sulfur diesel or sold to third parties. The asphalt may be processed or blended for coating and roofing applications at the Princeton refinery or transported to the Shreveport refinery for processing into bright stock.

The Princeton refinery currently consists of seven major processing units, approximately 650,000 barrels of storage capacity in 200 storage tanks and related loading and unloading facilities and utilities. Since our acquisition of the Princeton refinery in 1990, we have debottlenecked the crude unit to increase production capacity to 10,000 bpd, increased the hydrotreater's capacity to 7,000 bpd and upgraded the refinery's fractionation unit, which has enabled us to produce higher value specialty products. In addition, in 2004, we modified the crude and vacuum unit to improve fractionation and extend its useful life. The following table sets forth historical information about production at our Princeton refinery.

	Calumet		Predecessor
	Year Ended December 31,		
	2007	2006	2005

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Crude oil throughput capacity (bpd)	10,000	10,000	10,000
Total feedstock runs (bpd)(1)	7,226	7,574	8,067
Refinery production (bpd):			
Lubricating oils	5,050	5,085	5,463
Fuels	1,055	1,072	1,163
Asphalt and other by-products	1,093	1,386	1,356
Total refinery production(1)	7,198	7,543	7,982

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- (1) Total refinery production represents the barrels per day of specialty products yielded from processing crude oil and other feedstocks. The difference between total refinery production and total feedstock runs is primarily a result of the time lag between the input of feedstock and production of end products and volume loss.

The Princeton refinery has a hydrotreater and significant fractionation capability enabling the refining of high quality naphthenic lubricating oils at numerous distillation ranges. The Princeton refinery's processing capabilities consist of atmospheric and vacuum distillation, hydrotreating, asphalt oxidation processing and clay/acid treating facilities. In addition, we have the necessary tankage and technology to process our asphalt into higher value applications like coatings and road paving applications.

The Princeton refinery receives crude oil via tank truck, railcar and pipeline. Its crude oil feedstock primarily originates from Texas and north Louisiana and is purchased from various marketers and gatherers. The Princeton refinery ships its finished products throughout the country by both truck and rail car service.

Cotton Valley Refinery

The Cotton Valley refinery, located on a 77-acre site in Cotton Valley, Louisiana, has aggregate crude oil throughput capacity of 13,500 bpd and is currently processing crude oil into solvents, low sulfur diesel, fuel feedstocks and residual fuel oil. The residual fuel oil is an important feedstock for specialty products at the Shreveport refinery. We believe the Cotton Valley refinery produces the most complete, single-facility line of paraffinic solvents in the United States.

The Cotton Valley refinery currently consists of three major processing units that include a crude unit, a hydrotreater and a fractionation train, approximately 625,000 barrels of storage capacity in 74 storage tanks and related loading and unloading facilities and utilities. The Cotton Valley refinery also has a utility fractionator for batch processing of narrow distillation range specialty solvents. Since its acquisition in 1995, we have expanded the refinery's capabilities by installing a hydrotreater that removes aromatics, increased the crude unit processing capability to 13,500 bpd and reconfigured the refinery's fractionation train to improve product quality, enhance flexibility and lower utility costs. The following table sets forth historical information about production at our Cotton Valley refinery.

	Calumet Year Ended December 31, 2007	Predecessor 2006	2005
Crude oil throughput capacity (bpd)	13,500	13,500	13,500
Total feedstock runs (bpd)(1)(2)	6,775	7,130	7,145
Refinery production (bpd):			
Solvents	5,104	5,361	4,422
Asphalt and by-products	1,573	1,393	1,473
Fuels	896	966	1,191
Total refinery production(2)	7,573	7,720	7,086

- (1) Total feedstock runs do not include certain interplant solvent feedstocks supplied by our Shreveport refinery.

- (2) Total refinery production represents the barrels per day of specialty products yielded from processing crude oil and other feedstocks. The difference between total refinery production and total feedstock runs is primarily a result of the time lag between the input of feedstock and production of end products and volume loss.

The Cotton Valley configuration is flexible, which allows us to respond to market changes and customer demands by modifying its product mix. The reconfigured fractionation train also allows the refinery to satisfy demand fluctuations efficiently without large product inventory requirements.

The Cotton Valley refinery receives crude oil via truck and through a pipeline system operated by a subsidiary of Plains All American Pipeline, L.P. (Plains). Cotton Valley's feedstock is primarily low sulfur, paraffinic crude oil originating from north Louisiana and is purchased from various marketers and gatherers. In addition, the refinery

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receives feedstock for solvent production from the Shreveport refinery. The Cotton Valley refinery ships finished products throughout the country by both truck and rail car service.