

Calumet Specialty Products Partners, L.P.

Form 10-K

February 23, 2007

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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, 2006**
- 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

2911

37-1516132

*(State or Other Jurisdiction of
Incorporation or Organization)*

*(Primary Standard Industrial
Classification Code Number)*

*(I.R.S. Employer
Identification Number)*

**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

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

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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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 \$231.8 million on June 30, 2006, based on \$31.73 per unit, the closing price of the common units as reported on the NASDAQ Global Market on such date.

At February 9, 2007, there were 16,366,000 common units and 13,066,000 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE.

**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
FORM 10-K 2006 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, and (iii) 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;

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 price fluctuations;

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. Please read Item 1A Risk Factors Related to Our Business and Item 7A Quantitative and Qualitative Disclosures About Market Risk. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

References in this Form 10-K to Calumet Specialty Products Partners, the Partnership, the Company, we, our, 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

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and liabilities were contributed to Calumet Specialty Products Partners, L.P. and its subsidiaries. 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 Form 10-K to our general partner refer to Calumet GP, LLC.

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 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. For the year ended December 31, 2006, approximately 74.9% of our gross profit was generated from our specialty products segment and approximately 25.1% of our gross profit was generated from our fuel products segment.

Our operating assets 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 7,574 bpd for the year ended December 31, 2006.

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 7,130 bpd for the year ended December 31, 2006.

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 36,894 bpd for the year ended December 31, 2006.

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 1,200 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.

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 74.9% of our gross profit for the year ended December 31, 2006 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

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incremental feedstock costs to our specialty products customers and through our crude oil hedging program. In our fuel products business, 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.

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 from 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 third quarter of 2007, 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.

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 250 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 refineries for product upgrading in order to meet customer specifications.

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 800 companies and we are continually seeking new customers. From 1996 to December 31,

2006, we added an average of approximately 65 new specialty products customers per year, and for the year ended December 31, 2006 we added approximately 90 new specialty products customers. No single customer accounts for more than 10% of our specialty sales.

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Our refineries have advanced technology. Our refineries are equipped with advanced, flexible technology that allows us to produce high-grade specialty products and to produce gasoline and diesel products that comply with new fuel regulations. Our current gasoline production satisfies the 2006 low sulfur gasoline standard set by the Environmental Protection Agency (EPA), and our Shreveport and Cotton Valley refineries, as currently configured, have the processing capability to satisfy the 2006 ultra low sulfur diesel standard. 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. We also own and operate a terminal in Burnham, Illinois.

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

	Calumet Year Ended December 31, 2006	Predecessor 2005	2004
Total sales volume (bpd)(1)	50,345	46,953	24,658
Total feedstock runs (bpd)(2)	51,598	50,213	26,205
Refinery production (bpd)			
Specialty products:			
Lubricating oils	11,436	11,556	9,437
Solvents	5,361	4,422	4,973
Waxes	1,157	1,020	1,010
Asphalt and other by-products	6,596	6,313	5,992
Fuels	2,038	2,354	3,931
Total	26,588	25,665	25,343
Fuel products:			
Gasoline	9,430	8,278	3
Diesel	6,823	8,891	583

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Jet fuel	6,911	5,080	342
By-products	461	417	26
Total	23,625	22,666	954
Total refinery production(3)	50,213	48,331	26,297

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

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- (2) Total feedstock runs represents the barrels per day of crude oil and other feedstocks processed at our refineries.
- (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.

Set forth below is information regarding sales contributed by our principal products.

	Calumet	Predecessor	
	Year Ended December 31,		
	2006	2005	2004
	(In millions)		
Sales of specialty products:			
Lubricating oils	\$ 509.9	\$ 394.4	\$ 251.9
Solvents	201.9	145.0	114.7
Waxes	61.2	43.6	39.5
Fuels	41.3	44.0	72.7
Asphalt and other by-products	98.8	76.3	51.2
Total	\$ 913.1	\$ 703.3	\$ 530.0
Sales of fuel products:			
Gasoline	\$ 336.7	\$ 223.6	\$
Diesel	207.1	230.9	3.3
Jet fuel	176.4	121.3	
By-products	7.7	10.0	6.3
Total	727.9	585.8	9.6
Consolidated sales	\$ 1,641.0	\$ 1,289.1	\$ 539.6

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 or transported to the Shreveport refinery for further processing into ultra low sulfur diesel. 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.

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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 Year Ended December 31, 2006	Predecessor 2005	2004
Crude oil throughput capacity (bpd)	10,000	10,000	10,000
Total feedstock runs (bpd)(1)	7,574	8,067	8,062
Refinery production (bpd):			
Lubricating oils	5,085	5,463	5,390
Fuels	1,072	1,163	1,475
Asphalt and other by-products	1,386	1,356	1,363
Total refinery production(1)	7,543	7,982	8,228

(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 refined products at the Shreveport refinery. The Cotton Valley refinery produces the most complete, single-facility line of paraffinic solvents in the United States.

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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, 2006	Predecessor 2005	2004
Crude oil throughput capacity (bpd)	13,500	13,500	13,500
Total feedstock runs (bpd)(1)(2)	7,130	7,145	9,093
Refinery production (bpd):			
Solvents	5,361	4,422	4,973
Asphalt and by-products	1,393	1,473	2,330
Fuels	966	1,191	1,790
Total refinery production(2)	7,720	7,086	9,093

(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 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.

Shreveport Refinery

The Shreveport refinery, located on a 240-acre site in Shreveport, Louisiana, currently has aggregate crude oil throughput capacity of 42,000 bpd and is currently processing paraffinic crude oil and associated feedstocks into fuel products, paraffinic lubricating oils, waxes, residuals, and by-products.

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The Shreveport refinery currently consists of 15 major processing units, approximately 3.2 million barrels of storage capacity in 140 storage tanks and related loading and unloading facilities and utilities. Since its acquisition in 2001, we have expanded the refinery's capabilities by adding additional processing and blending facilities and a second reactor to the high pressure hydrotreater. In addition, during the fourth quarter of 2004, we resumed production of gasoline, diesel and other fuel products at the refinery. The following table sets forth historical information about production at our Shreveport refinery.

	Calumet Years Ended December 31, 2006	Predecessor 2005	2004
Crude oil throughput capacity (bpd)	42,000	42,000	10,000
Total feedstock runs (bpd)(1)	36,894	35,342	8,956
Refinery production (bpd):			
Fuels	23,625	22,666	1,595
Lubricating oils	6,351	6,093	4,047
Waxes	1,157	1,020	1,010
By-products	3,817	3,483	2,325
Total refinery production(1)(2)	34,950	33,262	8,977

(1) Total refinery production represents the barrels per day of specialty products and fuel 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.

(2) Total refinery production includes certain interplant solvent feedstocks supplied to our Cotton Valley refinery.

We commenced construction of an expansion project in the fourth quarter of 2006, scheduled for completion in the third quarter of 2007, to increase our Shreveport refinery's aggregate crude oil throughput capacity to approximately 57,000 bpd. We received the air permit necessary to commence construction of the project in the fourth quarter of 2006. For further 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.

The Shreveport refinery has a flexible operational configuration and operating personnel that facilitate development of new product opportunities. Product mix fluctuates from one period to the next to capture market opportunities. The refinery has an idle residual fluid catalytic cracking unit, alkylation unit, vacuum tower and a number of idle towers that can be utilized for future project needs. Certain idle towers will be utilized as a part of the Shreveport refinery expansion project discussed above.

The Shreveport refinery currently makes jet fuel, low sulfur diesel and ultra low sulfur diesel and all of its gasoline production currently meets low sulfur standards.

The Shreveport refinery receives crude oil from common carrier pipeline systems operated by subsidiaries of Plains and Exxon Mobil Corporation (ExxonMobil), each of which are connected to the Shreveport refinery's facilities. The

Plains pipeline system delivers local supplies of crude oil and condensates from north Louisiana and east Texas. The ExxonMobil pipeline system delivers domestic crude oil supplies from south Louisiana and foreign crude oil supplies from the Louisiana Offshore Oil Port (LOOP) or other crude oil terminals. In addition, trucks deliver crude oil gathered from local producers to the Shreveport refinery.

The Shreveport refinery has direct pipeline access to the TEPPCO Products Partners pipeline (TEPPCO pipeline), over which it can ship all grades of gasoline, jet fuel and diesel fuel. The refinery also has direct access to the Red River Terminal facility, which provides the refinery with barge access, via the Red River, to major feedstock and petroleum products logistics networks on the Mississippi River and Gulf Coast inland waterway system. The Shreveport refinery also ships its finished products throughout the country through both truck and rail car service.

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Burnham Terminal and Other Logistics Assets

We own and operate a terminal in Burnham, Illinois. The Burnham terminal receives specialty products exclusively from each of our refineries and distributes them by truck to our customers in the Upper Midwest and East Coast regions of the United States and in Canada.

The terminal includes a tank farm with 67 tanks with aggregate lubricating oil, solvent and specialty product storage capacity of approximately 150,000 barrels as well as blending equipment. The Burnham terminal is complementary to our refineries and plays a key role in moving our products to the end-user market by providing the following services:

distribution;

blending to achieve specified products; and

storage and inventory management.

We also lease a fleet of approximately 1,200 railcars from various lessors. This fleet enables us to receive crude oil and distribute various specialty products throughout the United States and Canada to and from each of our refineries.

Crude Oil and Feedstock Supply

We purchase crude oil from major oil companies as well as from various gatherers and marketers in Texas and north Louisiana. The Shreveport refinery can also receive crude oil through the ExxonMobil pipeline system originating in St. James, Louisiana, which provides the refinery with access to domestic crude oils and foreign crude oils through the LOOP or other terminal locations.

For the year ended December 31, 2006, we purchased approximately 38.5% of our crude oil supply from a subsidiary of Plains under a term contract that expires in February 2008, 37.7% of our crude oil supply through evergreen crude oil supply contracts, which are typically terminable on 30 days' notice by either party, and the remaining 23.8% of our crude oil supply on the spot market. We also purchase foreign crude oil when its spot market price is attractive relative to the price of crude oil from domestic sources. Due to the location of our refineries, we believe that adequate supplies of crude oil will continue to be available to us.

Our cost to acquire feedstocks, and the price for which we ultimately can sell refined products, depend on a number of factors beyond our control, including regional and global supply of and demand for crude oil and other feedstocks and specialty and fuel products. These in turn are dependent upon, among other things, the availability of imports, the production levels of domestic and foreign suppliers, U.S. relationships with foreign governments, political affairs and the extent of governmental regulation. We have historically been able to pass on the costs associated with increased feedstock prices to our specialty products customers although the increase in selling prices for specialty products typically lags the rising cost of crude oil. We use a hedging program to manage a portion of this price risk. Please read Item 7A Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk for a discussion of our crude oil hedging program.

Markets and Customers

We produce a full line of specialty products, including premium lubricating oils, solvents and waxes. Our customers purchase these products primarily as raw material components for basic industrial, consumer and automotive goods. We also produce a variety of fuel products.

We have an experienced marketing department with an average industry tenure of over 15 years. Our salespeople regularly visit customers and our sales department works closely with the laboratories at the refineries and our technical department to help create specialized blends that will work optimally for our customers.

Markets

Specialty Products. The specialty products market represents a small portion of the overall petroleum refining industry in the United States. Of the nearly 150 refineries currently in operation in the United States, only a

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small number of the refineries are considered specialty products producers and only a few compete with us in terms of the number of products produced.

Our specialty products are utilized in applications across a broad range of industries, including in:

industrial goods such as metal working fluids, belts, hoses, sealing systems, batteries, hot melt adhesives, pressure sensitive tapes, electrical transformers and refrigeration compressors;

consumer goods such as candles, petroleum jelly, creams, tonics, lotions, coating on paper cups, chewing gum base, automotive aftermarket car-care products (fuel injection cleaners, tire shines and polishes), lamp oils, charcoal lighter fluids, camping fuel and various aerosol products; and

automotive goods such as motor oils, greases, transmission fluid and tires.

Although our refineries are located in northwest Louisiana, we have the capability to ship our specialty products worldwide. We ship via rail cars, trucks or barges in the United States and Canada. For the year ended December 31, 2006, about 42.1% of our specialty products were shipped in our fleet of approximately 1,200 leased rail cars with the remaining 57.9% of our specialty products shipped in trucks owned and operated by several different third-party carriers. We have the capability to ship large quantities via barge if necessary. For shipments outside of North America, which accounted for less than 10% of our consolidated sales in 2006, we can ship railcars to several ports where the product is loaded on a ship for delivery to a customer.

Fuel Products. We produce a variety of fuel and fuel-related products, primarily at our Shreveport refinery.

Fuel products produced at the Shreveport refinery can be sold locally or through the TEPPCO pipeline. Local sales are made in the TEPPCO terminal in Bossier City, Louisiana, which is approximately 15 miles from the Shreveport refinery, as well as from our own refinery terminal. Any excess volumes are sold to marketers further up the TEPPCO pipeline.

During the year ended December 31, 2006, we sold approximately 11,000 bpd of gasoline into the Louisiana, Texas and Arkansas markets, and we sold our excess volumes to marketers further up the TEPPCO pipeline. Should the appropriate market conditions arise, we have the capability to redirect and sell additional volumes into the Louisiana, Texas and Arkansas markets rather than transport them to the Midwest. Similar market conditions exist for our diesel production. We also sell the majority of our diesel fuel locally, but similar to gasoline, we occasionally sell the excess volumes to upstream marketers during times of high diesel production or for competitive reasons.

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.

The Shreveport refinery also has the capacity to produce about 7,000 bpd of commercial jet fuel that can be marketed to Barksdale Air Force Base in Bossier City, Louisiana, sold as Jet-A locally or via the TEPPCO pipeline, or transferred to the Cotton Valley refinery to be used as a feedstock to make solvents. Jet fuel sales volumes change as the margin between diesel and jet fuel change. We have a sales contract with Barksdale for approximately 4,500 bpd of jet fuel. This contract is effective until April 2007 and is bid annually.

Additionally, we produce a number of fuel-related products including fluid catalytic cracking (FCC) feedstock, asphalt vacuum residual and mixed butanes.

Vacuum residuals are blended or processed further to make specialty asphalt products. Volumes of vacuum residuals which we cannot process are sold locally into the fuel oil market or sold via rail car to other producers. FCC feedstock is sold to other refiners as a feedstock for their FCC units. Butanes are primarily available in the summer months and are primarily sold to local marketers. If the butane is not sold, it is blended into our gasoline production.

Customers

Specialty Products. We have a diverse customer base for our specialty products, with approximately 800 active accounts. Most of our customers are long-term customers who use our products in specialty applications

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which require six months to two years to gain approval for use in their formulations. No single customer of our specialty products segment accounts for more than 10% of our consolidated sales.

Fuel Products. We have a diverse customer base for our fuel products, with 63 active accounts. We are able to sell the majority of the fuel products we produce to the local markets of Louisiana, east Texas and Arkansas. We also have the option to ship our fuel products to the Midwest through the TEPPCO pipeline, should the need arise. No single customer of our fuel products segment account for more than 10% of our consolidated sales.

Safety and Maintenance

We perform preventive and normal maintenance on all of our refining and logistics assets and make repairs and replacements when necessary or appropriate. We also conduct routine and required inspections of our assets as required by law or regulation.

We are subject to the requirements of Federal Occupational Safety and Health Act (OSHA) and comparable state occupational safety statutes. We believe that we have operated in substantial compliance with OSHA requirements, including general industry standards, record keeping and reporting, hazard communication and process safety management. We have implemented a quality system that meets the requirements of the QS 9000/ISO-9002 Standard. The integrity of our certification is maintained through surveillance audits by our registrar at regular intervals designed to ensure adherence to the standards. The nature of our business may result from time to time in industrial accidents. It is possible that changes in safety and health regulations or a finding of non-compliance with current regulations could result in additional capital expenditures or operating expenses, as well as fines and penalties.

Competition

Competition in our markets is from a combination of large, integrated petroleum companies, independent refiners and wax companies. Many of our competitors are substantially larger than us and are engaged on a national or international basis in many segments of the petroleum products business, including refining, transportation and marketing, on scales substantially larger than ours. These competitors may have greater flexibility in responding to or absorbing market changes occurring in one or more of these segments. We distinguish our competitors according to the products that they produce. Set forth below is a description of our competitors according to products.

Naphthenic Lubricating Oils. Our primary competitor in producing naphthenic lubricating oils is Ergon Refining, Inc. We also compete with Cross Oil Refining and Marketing, Inc. and San Joaquin Refining Co., Inc.

Paraffinic Lubricating Oils. Our primary competitors in producing paraffinic lubricating oils include ExxonMobil, Motiva Enterprises, LLC, ConocoPhillips and Sunoco Lubricants & Special Products.

Paraffin Waxes. Our primary competitors in producing paraffin waxes include Exxon Mobil and The International Group Inc.

Solvents. Our competitors in producing solvents include Citgo Petroleum Corporation, Ashland Inc. and ConocoPhillips.

Fuel Products. Our competitors in producing fuels products in the local markets in which we operate include Delek Refining, Ltd. and Lion Oil Company.

Our ability to compete effectively depends on our responsiveness to customer needs and our ability to maintain competitive prices and product offerings. We believe that our flexibility and customer responsiveness differentiate us

from many of our larger competitors. However, it is possible that new or existing competitors could enter the markets in which we operate, which could negatively affect our financial performance.

Environmental Matters

We operate crude oil and specialty hydrocarbon refining and terminal operations, which are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations can impair our operations that affect

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the environment in many ways, such as requiring the acquisition of permits to conduct regulated activities; restricting the manner in which the Company can release materials into the environment; requiring remedial activities or capital expenditures to mitigate pollution from former or current operations; and imposing substantial liabilities on us for pollution resulting from our operations. Certain environmental 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.

Failure to comply with environmental laws and regulations may result in the triggering of administrative, civil and criminal measures, including the assessment of monetary penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or prohibiting some or all of our operations. On occasion, we receive notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable environmental laws and regulations. In particular, the Louisiana Department of Environmental Quality (LDEQ) has proposed penalties totaling approximately \$0.2 million and supplemental projects for the following alleged violations: (i) a May 2001 notification received by the Cotton Valley refinery from the LDEQ regarding several alleged violations of various air emission regulations, as identified in the course of our Leak Detection and Repair program, and also for failure to submit various reports related to the facility's air emissions; (ii) a December 2002 notification received by the Cotton Valley refinery from the LDEQ regarding alleged violations for excess emissions, as identified in the LDEQ's file review of the Cotton Valley refinery; and (iii) a December 2004 notification received by the Cotton Valley refinery from the LDEQ regarding alleged violations for the construction of a multi-tower pad and associated pump pads without a permit issued by the agency. We are currently in settlement negotiations with the LDEQ to resolve these matters, as well as a number of similar matters at the Princeton refinery, for which no penalty has yet been proposed. We expect that any penalties that may be assessed due to the alleged violations at our Princeton refinery will be consolidated in a settlement agreement that we anticipate executing with the LDEQ in connection with the agency's Small Refinery and Single Site Refinery Initiative described below in Air.

The clear trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus, any changes in environmental laws and regulations that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, in connection with accidental spills or releases associated with our operations, we cannot assure our unitholders that we will not incur substantial costs and liabilities as a result of such spills or releases, including those relating to claims for damage to property and persons. In the event of future increases in costs, we may be unable to pass on those increases to our customers. While we believe that we are in substantial compliance with existing environmental laws and regulations and that continued compliance with these requirements will not have a material adverse effect on us, there can be no assurance that our environmental compliance expenditures will not become material in the future.

Air

Our operations are subject to the federal Clean Air Act, as amended, and comparable state and local laws. The Clean Air Act Amendments of 1990 require most industrial operations in the U.S. to incur capital expenditures to meet the air emission control standards that are developed and implemented by the EPA and state environmental agencies. Under the Clean Air Act, facilities that emit volatile organic compounds or nitrogen oxides face increasingly stringent regulations, including requirements to install various levels of control technology on sources of pollutants. In addition, the petroleum refining sector has come under stringent new EPA regulations, imposing maximum achievable control technology (MACT) on refinery equipment emitting certain listed hazardous air pollutants. Some of our facilities have been included within the categories of sources regulated by MACT rules. In addition, air permits are required for our refining and terminal operations that result in the emission of regulated air contaminants. These permits incorporate stringent control technology requirements and are subject to extensive review and periodic renewal. Aside from the alleged air violations discussed above for which we are currently discussing settlement with the LDEQ, we believe

that we are in substantial compliance with the Clean Air Act and similar state and local laws.

The Clean Air Act authorizes the EPA to require modifications in the formulation of the refined transportation fuel products we manufacture in order to limit the emissions associated with the fuel product's final use. For

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example, in December 1999, the EPA promulgated regulations limiting the sulfur content allowed in gasoline. These regulations required the phase-in of gasoline sulfur standards beginning in 2004, with special provisions for small refiners and for refiners serving those Western states exhibiting lesser air quality problems. Similarly, the EPA promulgated regulations that limit the sulfur content of highway diesel beginning in 2006 from its former level of 500 parts per million (ppm) to 15 ppm (the ultra low sulfur standard). The Shreveport refinery has implemented the sulfur standard with respect to gasoline in its production and has commenced production of diesel meeting the ultra low sulfur standard.

We recently have entered into discussions on a voluntary basis with the LDEQ regarding the Company's participation in that agency's Small Refinery and Single Site Refinery Initiative. This state initiative is patterned after the EPA's National Petroleum Refinery Initiative, which is a coordinated, integrated compliance and enforcement strategy to address federal Clean Air Act compliance issues at the nation's largest petroleum refineries. We expect that the LDEQ's primary focus under the state initiative will be on four compliance and enforcement concerns: (i) Prevention of Significant Deterioration/New Source Review; (ii) New Source Performance Standards for fuel gas combustion devices, including flares, heaters and boilers; (iii) Leak Detection and Repair requirements; and (iv) Benzene Waste Operations National Emission Standards for Hazardous Air Pollutants. We are only in the beginning stages of discussion with the LDEQ and, consequently, while no significant compliance and enforcement expenditures have been requested as a result of these discussions, we anticipate that we will ultimately be required to make emissions reductions requiring capital investments between approximately \$1.0 million and \$3.0 million over a three to five year period at our three Louisiana refineries.

In response to recent studies suggesting that emissions of certain gases may be contributing to warming of the Earth's atmosphere, many foreign nations have agreed to limit emissions of these gases, generally referred to as greenhouse gases, pursuant to the United Nations Framework Convention on Climate Change, also known as the Kyoto Protocol. Methane, a primary component of natural gas, and carbon dioxide, a by-product of the burning of fossil fuels, are examples of greenhouse gases. Although the United States is not participating in the Kyoto Protocol, the current session of Congress is considering climate change legislation, with multiple bills having already been introduced in the Senate that propose to restrict greenhouse gas emissions. By comparison, several states have already adopted legislation, regulations and/or regulatory initiatives to reduce emissions of greenhouse gases. Also, on November 29, 2006, the U.S. Supreme Court heard arguments on a case appealed from the U.S. Circuit Court of Appeals for the District of Columbia, *Massachusetts, et al. v. EPA*, in which the appellate court held that the U.S. Environmental Protection Agency had discretion under the federal Clean Air Act to refuse to regulate carbon dioxide emissions from mobile sources. Passage of climate change legislation by Congress or a Supreme Court reversal of the appellate decision could result in federal regulation of carbon dioxide emissions and other greenhouse gases. Also, any federal or state restrictions on emissions of greenhouse gases that may be imposed in areas of the United States in which we conduct business could adversely affect our operations and demand for our products.

On December 27, 2006, the LDEQ approved our application for a modification of our air emissions permit for the Shreveport refinery expansion. We were required to obtain approval of this modified air emissions permit from the LDEQ prior to commencing construction of the expansion activities. Upon receipt of the permit approval from the LDEQ, we have commenced construction of the Shreveport refinery expansion project. On February 22, 2007, we received notice that on February 13, 2007 an individual filed, on behalf of the Residents for Air Neutralization, a Petition for Review in the 19th Judicial District Court for East Baton Rouge Parish, Louisiana, asking the Court to review the approval granted by the LDEQ for our application for a modified air emissions permit. The Petition alleges the information in the final LDEQ decision report was inaccurate and that, based on the LDEQ's decision to grant the modified air emissions permit, the LDEQ had not reviewed the evidence put before them properly. There is a question, unresolved at this time, concerning whether the Petition was timely filed. If it was timely filed, the LDEQ will have sixty days after service of the Petition to file the record of its proceedings with the district court. We believe that the LDEQ will be successful in defending its approval of our application for a modified air emissions permit.

Neither we nor any of our subsidiaries is named at this time as a party to the Petition. For a further discussion of the expansion project, please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Expenditures.

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Hazardous Substances and Wastes

The Comprehensive Environmental Response, Compensation and Liability Act, as amended (CERCLA), also known as the Superfund law, and comparable state laws impose liability without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. Such classes of persons include the current and past owners and operators of sites where a hazardous substance was released, and companies that disposed or arranged for disposal of hazardous substances at offsite locations, such as landfills. Under CERCLA, these responsible persons may be subject to joint and several, strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. In the course of our operations, we generate wastes or handle substances that may be regulated as hazardous substances, and we could become subject to liability under CERCLA and comparable state laws.

We also may incur liability under the Resource Conservation and Recovery Act (RCRA), and comparable state laws, which impose requirements related to the handling, storage, treatment, and disposal of solid and hazardous wastes. In the course of our operations, we generate petroleum product wastes and ordinary industrial wastes, such as paint wastes, waste solvents, and waste oils, that may be regulated as hazardous wastes. In addition, our operations also generate solid wastes, which are regulated under RCRA and state law. We believe that we are in substantial compliance with the existing requirements of RCRA and similar state and local laws, and the cost involved in complying with these requirements is not material.

We currently own or operate, and have in the past owned or operated, properties that for many years have been used for refining and terminal activities. These properties have in the past been operated by third parties whose treatment and disposal or release of petroleum hydrocarbons and wastes was not under our control. Although we used operating and disposal practices that were standard in the industry at the time, petroleum hydrocarbons or wastes have been released on or under the properties owned or operated by us. These properties and the materials disposed or released on them may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes or property contamination, or to perform remedial activities to prevent future contamination.

Voluntary remediation of subsurface contamination is in process at each of our refinery sites. The remedial projects are being overseen by the appropriate state agencies. Based on current investigative and remedial activities, we believe that the groundwater contamination at these refineries can be controlled or remedied without having a material adverse effect on our financial condition. However, such costs are often unpredictable and, therefore, there can be no assurance that the future costs will not become material.

Water

The federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state laws impose restrictions and stringent controls on the discharge of pollutants, including oil, into federal and state waters. Such discharges are prohibited, except in accordance with the terms of a permit issued by the EPA or the appropriate state agencies. Any unpermitted release of pollutants, including crude or hydrocarbon specialty oils as well as refined products, could result in penalties, as well as significant remedial obligations. Spill prevention, control, and countermeasure requirements of federal laws require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon tank spill, rupture, or leak. We believe that we are in substantial compliance with the requirements of the Clean Water Act.

The primary federal law for oil spill liability is the Oil Pollution Act of 1990, as amended (OPA), which addresses three principal areas of oil pollution prevention, containment, and cleanup. OPA applies to vessels, offshore facilities, and onshore facilities, including refineries, terminals, and associated facilities that may affect waters of the U.S. Under OPA, responsible parties, including owners and operators of onshore facilities, may be subject to oil cleanup costs and natural resource damages as well as a variety of public and private damages from oil spills. We believe that we are in substantial compliance with OPA and similar state laws.

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Health and Safety

We are subject to various laws and regulations relating to occupational health and safety including OSHA, and comparable state laws. These laws and the implementing 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 our operations and that this information be provided to employees, state and local government authorities and citizens. We maintain safety, training, and maintenance programs as part of our ongoing efforts to ensure compliance with applicable laws and regulations. Our compliance with applicable health and safety laws and regulations has required and continues to require substantial expenditures. We believe that our operations are in substantial compliance with OSHA and similar state laws.

Other Environmental Items

We are indemnified by Shell Oil Company, as successor to Pennzoil-Quaker State Company and Atlas Processing Company, for specified environmental liabilities arising from operations of the Shreveport refinery prior to our acquisition of the facility. The indemnity is unlimited in amount and duration, but requires us to contribute up to \$1.0 million of the first \$5.0 million of indemnified costs for certain of the specified environmental liabilities.

Insurance

Our operations are subject to certain hazards of operations, including fire, explosion and weather-related perils. We maintain insurance policies, including business interruption insurance for each of the refineries, with insurers in amounts and with coverage and deductibles that we, with the advice of our insurance advisors and brokers, believe are reasonable and prudent. We cannot, however, ensure that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

Seasonality

The operating results for the fuel products segment and the selling prices of asphalt products we produce can be seasonal. Asphalt demand is generally lower in the first and fourth quarters of the year as compared to the second and third quarters due to the seasonality of annual road construction. Demand for gasoline is generally higher during the summer months than during the winter months due to seasonal increases in highway traffic. In addition, our natural gas costs can be higher during the winter months. As a result, our operating results for the first and fourth calendar quarters may be lower than those for the second and third calendar quarters of each year as a result of this seasonality.

Title to Properties

We own the 208-acre site of the Princeton refinery in Princeton, Louisiana, the 77-acre site of the Cotton Valley refinery in Cotton Valley, Louisiana and the 240-acre site of the Shreveport refinery in Shreveport, Louisiana. In addition, we own the 11-acre site of the Burnham terminal in Burnham, Illinois. Our properties are pledged as collateral under our credit facilities as discussed in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Debt and Credit Facilities.

Office Facilities

In addition to our refineries and terminal discussed above, we occupy approximately 19,000 square feet of executive office space in Indianapolis, Indiana under a lease expiring in September 2011. While we may require additional office space as our business expands, we believe that our existing facilities are adequate to meet our needs for the immediate future and that additional facilities will be available on commercially reasonable terms as needed.

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Employees

As of February 9, 2007, our general partner employs approximately 360 people who provide direct support to the Company's operations. Of these employees, approximately 200 are covered by collective bargaining agreements. Employees at the Princeton and Cotton Valley refineries are covered by separate collective bargaining agreements with the International Union of Operating Engineers, having expiration dates of October 31, 2008 and March 31, 2007, respectively. Employees at the Shreveport refinery are covered by a collective bargaining agreement with the Paper, Allied-Industrial, Chemical and Energy Workers International Union which expires as of April 30, 2007. None of the employees at the Burnham terminal are covered by collective bargaining agreements. Our general partner considers its employee relations to be good, with no history of work stoppages.

Address, Internet Website and Availability of Public Filings

Our principal executive offices are located at 2780 Waterfront Pkwy E. Drive, Suite 200, Indianapolis, Indiana 46214 and our telephone number is (317) 328-5660. Our website is located at <http://www.calumetspecialty.com>.

We make the following information available free of charge on our website:

Annual Report on Form 10-K;

Quarterly Reports on Form 10-Q;

Current Reports on Form 8-K;

Amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934;

Charters for the Audit, Compensation and Conflicts Committees; and

Code of Business Conduct and Ethics.

Our SEC filings are available on our website as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (SEC). The above information is available in print to anyone who requests it.

Item 1A. Risk Factors Related to Our Business

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following the establishment of cash reserves and payment of fees and expenses, including payments to our general partner.

We may not have sufficient available cash from operations each quarter to enable us to pay the minimum quarterly distribution. Under the terms of our partnership agreement, we must pay expenses, including payments to our general partner, and set aside any cash reserve amounts before making a distribution to our unitholders. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which is primarily dependent upon our producing and selling quantities of fuel and specialty products, or refined products, at margins that are high enough to cover our fixed and variable expenses. Crude oil costs, fuel and specialty products prices and, accordingly, the cash we generate from operations, will fluctuate from quarter to quarter based on, among other things:

overall demand for specialty hydrocarbon products, fuel and other refined products;

the level of foreign and domestic production of crude oil and refined products;

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

the marketing of alternative and competing products;

the extent of government regulation;

results of our hedging activities; and

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overall economic and local market conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, including:

the level of capital expenditures we make, including those for acquisitions, if any;

our debt service requirements;

fluctuations in our working capital needs;

our ability to borrow funds and access capital markets;

restrictions on distributions and on our ability to make working capital borrowings for distributions contained in our credit facilities; and

the amount of cash reserves established by our general partner for the proper conduct of our business.

The amount of cash we have available for distribution to unitholders depends primarily on our cash flow and not solely on profitability.

Unitholders should be aware that the amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Refining margins are volatile, and a reduction in our refining margins will adversely affect the amount of cash we will have available for distribution to our unitholders.

Our financial results are primarily affected by the relationship, or margin, between our specialty products and fuel prices and the prices for crude oil and other feedstocks. The cost to acquire our feedstocks and the price at which we can ultimately sell our refined products depend upon numerous factors beyond our control. Historically, refining margins have been volatile, and they are likely to continue to be volatile in the future. A widely used benchmark in the fuel products industry to measure market values and margins is the 3/2/1 crack spread, which represents the approximate gross margin resulting from processing one barrel of crude oil, assuming that three barrels of a benchmark crude oil are converted, or cracked, into two barrels of gasoline and one barrel of heating oil. The 3/2/1 crack spread, as reported by Bloomberg L.P., averaged \$3.04 per barrel between 1990 and 1999, \$4.61 per barrel between 2000 and 2004, \$10.63 per barrel in 2005, \$8.68 per barrel in the first quarter of 2006, \$15.75 per barrel in the second quarter of 2006, \$10.92 per barrel in the third quarter of 2006 and \$7.43 per barrel in the fourth quarter of 2006, and \$10.70 for the year ended December 31, 2006. Our actual refinery margins vary from the Gulf Coast 3/2/1 crack spread due to the actual crude oil used and products produced, transportation costs, regional differences, and the timing of the purchase of the feedstock and sale of the refined products, but we use the Gulf Coast 3/2/1 crack spread as an indicator of the volatility and general levels of refining margins. Because refining margins are volatile, unitholders should not assume that our current margins will be sustained. If our refining margins fall, it will adversely affect the amount of cash we will have available for distribution to our unitholders.

The price at which we sell specialty products, fuel and other refined products is strongly influenced by the commodity price of crude oil. If crude oil prices increase, our operating margins will fall unless we are able to pass along these

price increases to our customers. Increases in selling prices typically lag the rising cost of crude oil for specialty products. It is possible we may not be able to pass on all or any portion of the increased crude oil costs to our customers. In addition, we will not be able to completely eliminate our commodity risk through our hedging activities.

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Because of the volatility of crude oil and refined products prices, our method of valuing our inventory may result in decreases in net income.

The nature of our business requires us to maintain substantial quantities of crude oil and refined product inventories. Because crude oil and refined products are essentially commodities, we have no control over the changing market value of these inventories. Because our inventory is valued at the lower of cost or market value, if the market value of our inventory were to decline to an amount less than our cost, we would record a write-down of inventory and a non-cash charge to cost of sales. In a period of decreasing crude oil or refined product prices, our inventory valuation methodology may result in decreases in net income.

The price volatility of fuel and utility services may result in decreases in our earnings, profitability and cash flows.

The volatility in costs of fuel, principally natural gas, and other utility services, principally electricity, used by our refinery and other operations affect our net income and cash flows. Fuel and utility prices are affected by factors outside of our control, such as supply and demand for fuel and utility services in both local and regional markets. Natural gas prices have historically been volatile.

For example, daily prices as reported on the New York Mercantile Exchange (NYMEX) ranged between \$4.20 and \$10.62 per million British thermal units, or MMBtu, in 2006 and between \$5.79 and \$15.39 per MMBtu in 2005. Typically, electricity prices fluctuate with natural gas prices. Future increases in fuel and utility prices may have a material adverse effect on our results of operations. Fuel and utility costs constituted approximately 42.3% and 45.6% of our total operating expenses included in cost of sales for the years ended December 31, 2006 and 2005, respectively.

Our hedging activities may reduce our earnings, profitability and cash flows.

We are exposed to fluctuations in the price of crude oil, fuel products, natural gas and interest rates. We utilize derivative financial instruments related to the future price of crude oil, natural gas and fuel products with the intent of reducing volatility in our cash flows due to fluctuations in commodity prices. We are not able to enter into derivative financial instruments to reduce the volatility of the prices of the specialty hydrocarbon products we sell as there is no established derivative market for such products.

Prior to 2006, we had not designated all of our derivative instruments as hedges in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. According to SFAS 133, changes in the fair value of derivatives which have not been designated as hedges are to be recorded each period in earnings and reflected in unrealized gain (loss) on derivative instruments in the consolidated statements of operations. For the years ended December 31, 2006, 2005 and 2004, these unrealized gains (losses) were \$12.3 million, \$(27.6) million, and \$(7.8) million, respectively. On April 1, 2006, we designated certain derivative contracts that hedge the purchase of crude oil and sale of fuel products as cash flow hedges to the extent they qualify for hedge accounting. Subsequent to April 1, 2006, we designated certain derivatives related to crude oil and natural gas purchases and fuel product sales, and interest payments as cash flow hedges at the time of their execution. For derivatives designated as cash flow hedges, the change in fair value of these derivatives is reflected in accumulated other comprehensive income in the consolidated balance sheets. A total fair value of \$52.3 million of these derivatives is reflected in accumulated other comprehensive income on the consolidated balance sheets as of December 31, 2006.

The extent of our commodity price exposure is related largely to the effectiveness and scope of our hedging activities. For example, the derivative instruments we utilize are based on posted market prices, which may differ significantly

from the actual crude oil prices, natural gas prices or fuel products prices that we incur in our operations. Furthermore, we have a policy to enter into derivative transactions related to only a portion of the volume of our expected purchase and sales requirements and, as a result, we will continue to have direct commodity price exposure to the unhedged portion. Please read Item 7A Quantitative and Qualitative Disclosures about Market Risk. Our actual future purchase and sales requirements may be significantly higher or lower than we estimate at the time we enter into derivative transactions for such period. If the actual amount is higher than we estimate, we will have greater commodity price exposure than we intended. If the actual amount is lower than the

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amount that is subject to our derivative financial instruments, we might be forced to satisfy all or a portion of our derivative transactions without the benefit of the cash flow from our sale or purchase of the underlying physical commodity, resulting in a substantial diminution of our liquidity. As a result, our hedging activities may not be as effective as we intend in reducing the volatility of our cash flows. In addition, our hedging activities are subject to the risks that a counterparty may not perform its obligation under the applicable derivative instrument, the terms of the derivative instruments are imperfect, and our hedging policies and procedures are not properly followed. It is possible that the steps we take to monitor our derivative financial instruments may not detect and prevent violations of our risk management policies and procedures, particularly if deception or other intentional misconduct is involved.

Our asset reconfiguration and enhancement initiatives, including the current expansion project at our Shreveport refinery, may not result in revenue or cash flow increases, may be subject to significant cost overruns and are subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our business, operating results, cash flows and financial condition.

We plan to grow our business in part through the reconfiguration and enhancement of our refinery assets. As a specific current example, we have commenced construction of an expansion project at our Shreveport refinery to increase throughput capacity and crude oil processing flexibility. This construction project and the construction of other additions or modifications to our existing refineries involve numerous regulatory, environmental, political, legal and economic uncertainties beyond our control, which could cause delays in construction or require the expenditure of significant amounts of capital, which we may finance with additional indebtedness or by issuing additional equity securities. As a result, these projects may not be completed at the budgeted cost, on schedule, or at all.

We currently anticipate that our expansion project at the Shreveport refinery will cost approximately \$150.0 million. We may suffer significant delays to the expected completion date or significant additional cost overruns as a result of increases in construction costs, shortages of workers or materials, transportation constraints, adverse weather, regulatory and permitting challenges, unforeseen difficulties or labor issues. Thus, construction to expand our Shreveport refinery or construction of other additions or modifications to our existing refineries may occur over an extended period of time and we may not receive any material increases in revenues and cash flows until the project is completed, if at all. Until the Shreveport expansion project is put into commercial service and increases our cash flow from operations on a per unit basis, we will be able to issue only 3,233,000 additional common units without obtaining unitholder approval, thereby limiting our ability to raise additional capital through the sale of common units. For further discussion of the Shreveport expansion project, please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Capital Expenditures.

If our general financial condition deteriorates, we may be limited in our ability to issue letters of credit which may affect our ability to enter into hedging arrangements or to purchase crude oil.

We rely on our ability to issue letters of credit to enter into hedging arrangements in an effort to reduce our exposure to adverse fluctuations in the prices of crude oil, natural gas and crack spreads. We also rely on our ability to issue letters of credit to purchase crude oil for our refineries and enter into cash flow hedges of crude oil and natural gas purchases and fuel products sales. If, due to our financial condition or other reasons, we are limited in our ability to issue letters of credit or we are unable to issue letters of credit at all, we may be required to post substantial amounts of cash collateral to our hedging counterparties or crude oil suppliers in order to continue these activities, which would adversely affect our liquidity and our ability to distribute cash to our unitholders.

We depend on certain key crude oil gatherers for a significant portion of our supply of crude oil, and the loss of any of these key suppliers or a material decrease in the supply of crude oil generally available to our refineries could materially reduce our ability to make distributions to unitholders.

We purchase crude oil from major oil companies as well as from various gatherers and marketers in Texas and North Louisiana. For the year ended December 31, 2006, subsidiaries of Plains and Koch Supply and Trading, LP supplied us with approximately 50.6% and 23.5%, respectively, of our total crude oil supplies. Each of our refineries

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is dependent on one or both of these suppliers and the loss of these suppliers would adversely affect our financial results to the extent we were unable to find another supplier of this substantial amount of crude oil. We do not maintain long-term contracts with most of our suppliers. Please read Items 1 and 2 Business and Properties Crude Oil and Feedstock Supply.

To the extent that our suppliers reduce the volumes of crude oil that they supply us as a result of declining production or competition or otherwise, our revenues, net income and cash available for distribution would decline unless we were able to acquire comparable supplies of crude oil on comparable terms from other suppliers, which may not be possible in areas where the supplier that reduces its volumes is the primary supplier in the area. A material decrease in crude oil production from the fields that supply our refineries, as a result of depressed commodity prices, lack of drilling activity, natural production declines or otherwise, could result in a decline in the volume of crude oil we refine. Fluctuations in crude oil prices can greatly affect production rates and investments by third parties in the development of new oil reserves. Drilling activity generally decreases as crude oil prices decrease. We have no control over the level of drilling activity in the fields that supply our refineries, the amount of reserves underlying the wells in these fields, the rate at which production from a well will decline or the production decisions of producers, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, geological considerations, governmental regulation and the availability and cost of capital.

We are dependent on certain third-party pipelines for transportation of crude oil and refined products, and if these pipelines become unavailable to us, our revenues and cash available for distribution could decline.

Our Shreveport refinery is interconnected to pipelines that supply most of its crude oil and ship most of its refined fuel products to customers, such as pipelines operated by subsidiaries of TEPPCO Partners, L.P. and Exxon Mobil. Since we do not own or operate any of these pipelines, their continuing operation is not within our control. If any of these third-party pipelines become unavailable to transport crude oil feedstock or our refined fuel products because of accidents, government regulation, terrorism or other events, our revenues, net income and cash available for distribution could decline.

Distributions to unitholders could be adversely affected by a decrease in the demand for our specialty products.

Changes in our customers' products or processes may enable our customers to reduce consumption of the specialty products that we produce or make our specialty products unnecessary. Should a customer decide to use a different product due to price, performance or other considerations, we may not be able to supply a product that meets the customer's new requirements. In addition, the demand for our customers' end products could decrease, which would reduce their demand for our specialty products. Our specialty products customers are primarily in the industrial goods, consumer goods and automotive goods industries and we are therefore susceptible to changing demand patterns and products in those industries. Consequently, it is important that we develop and manufacture new products to replace the sales of products that mature and decline in use. If we are unable to manage successfully the maturation of our existing specialty products and the introduction of new specialty products our revenues, net income and cash available for distribution to unitholders could be reduced.

Distributions to unitholders could be adversely affected by a decrease in demand for fuel products in the markets we serve.

Any sustained decrease in demand for fuel products in the markets we serve could result in a significant reduction in our cash flows, reducing our ability to make distributions to unitholders. Factors that could lead to a decrease in market demand include:

a recession or other adverse economic condition that results in lower spending by consumers on gasoline, diesel, and travel;

higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of fuel products;

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an increase in fuel economy or the increased use of alternative fuel sources;

an increase in the market price of crude oil that lead to higher refined product prices, which may reduce demand for fuel products;

competitor actions; and

availability of raw materials.

We could be subject to damages based on claims brought against us by our customers or lose customers as a result of the failure of our products to meet certain quality specifications.

Our specialty products provide precise performance attributes for our customers' products. If a product fails to perform in a manner consistent with the detailed quality specifications required by the customer, the customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as guaranteed. A successful claim or series of claims against us could result in a loss of one or more customers and reduce our ability to make distributions to unitholders.

We are subject to compliance with stringent environmental laws and regulations that may expose us to substantial costs and liabilities.

Our crude oil and specialty hydrocarbon refining and terminal operations are subject to stringent and complex federal, state and local environmental laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations impose numerous obligations that are applicable to our operations, including the acquisition of permits to conduct regulated activities, the incurrence of significant capital expenditures to limit or prevent releases of materials from our refineries, terminal, and related facilities, and the incurrence of substantial costs and liabilities for pollution resulting both from our operations and from those of prior owners. Numerous governmental authorities, such as the EPA and state agencies, such as the LDEQ, have the power to enforce compliance with these laws and regulations and the permits issued under them, often requiring difficult and costly actions. Failure to comply with environmental laws, regulations, permits and orders may result in the assessment of administrative, civil, and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or preventing some or all of our operations.

We recently have entered into discussions on a voluntary basis with the LDEQ regarding our participation in that agency's Small Refinery and Single Site Refinery Initiative. We are only in the beginning stages of discussion with the LDEQ and, consequently, while no specific compliance and enforcement expenditures have been requested as a result of our discussions, we anticipate that we will ultimately be required to make emissions reductions or other efforts requiring capital investments and increased operating expenditures that may be material.

Our business subjects us to the inherent risk of incurring significant environmental liabilities in the operation of our refineries and related facilities.

There is inherent risk of incurring significant environmental costs and liabilities in the operation of our refineries, terminal, and related facilities due to our handling of petroleum hydrocarbons and wastes, air emissions and water discharges related to our operations, and historical operations and waste disposal practices by prior owners. We currently own or operate properties that for many years have been used for industrial activities, including refining or terminal storage operations. Petroleum hydrocarbons or wastes have been released on or under the properties owned or operated by us. Joint and several strict liability may be incurred in connection with such releases of petroleum

hydrocarbons and wastes on, under or from our properties and facilities. Private parties, including the owners of properties adjacent to our operations and facilities where our petroleum hydrocarbons or wastes are taken for reclamation or disposal, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. We may not be able to recover some or any of these costs from insurance or other sources of indemnity.

Increasingly stringent environmental laws and regulations, unanticipated remediation obligations or emissions control expenditures and claims for penalties or damages could result in substantial costs and liabilities, and our

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ability to make distributions to our unitholders could suffer as a result. Neither the owners of our general partner nor their affiliates have indemnified us for any environmental liabilities, including those arising from non-compliance or pollution, that may be discovered at, or arise from operations on, the assets they contributed to us in connection with the closing of our initial public offering. As such, we can expect no economic assistance from any of them in the event that we are required to make expenditures to investigate or remediate any petroleum hydrocarbons, wastes or other materials.

We are exposed to trade credit risk in the ordinary course of our business activities.

We are exposed to risks of loss in the event of nonperformance by our customers and by counterparties of our forward contracts, options and swap agreements. Some of our customers and counterparties may be highly leveraged and subject to their own operating and regulatory risks. Even if our credit review and analysis mechanisms work properly, we may experience financial losses in our dealings with other parties. Any increase in the nonpayment or nonperformance by our customers and/or counterparties could reduce our ability to make distributions to our unitholders.

If we do not make acquisitions on economically acceptable terms, our future growth will be limited.

Our ability to grow depends on our ability to make acquisitions that result in an increase in the cash generated from operations per unit. If we are unable to make these accretive acquisitions either because we are: (1) unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them, (2) unable to obtain financing for these acquisitions on economically acceptable terms, or (3) outbid by competitors, then our future growth and ability to increase distributions will be limited. Furthermore, any acquisition involves potential risks, including, among other things:

performance from the acquired assets and businesses that is below the forecasts we used in evaluating the acquisition;

a significant increase in our indebtedness and working capital requirements;

an inability to timely and effectively integrate the operations of recently acquired businesses or assets, particularly those in new geographic areas or in new lines of business;

the incurrence of substantial unforeseen environmental and other liabilities arising out of the acquired businesses or assets;

the diversion of management's attention from other business concerns; and

customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and our unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of our funds and other resources.

Our refineries and terminal operations face operating hazards, and the potential limits on insurance coverage could expose us to potentially significant liability costs.

Our activities are conducted at three refineries in northwest Louisiana and a terminal in Illinois. These facilities are our principal operating assets. Our operations are subject to significant interruption, and our cash from operations

could decline if any of our facilities experiences a major accident or fire, is damaged by severe weather or other natural disaster, or otherwise is forced to curtail its operations or shut down. These hazards could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations.

We are not fully insured against all risks incident to our business. Furthermore, we may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased and could escalate further. In some instances,

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certain insurance could become unavailable or available only for reduced amounts of coverage. Our business interruption insurance will not apply unless a business interruption exceeds 90 days. We are not insured for environmental accidents. If we were to incur a significant liability for which we were not fully insured, it could diminish our ability to make distributions to unitholders.

Downtime for maintenance at our refineries will reduce our revenues and cash available for distribution.

Our refineries consist of many processing units, a number of which have been in operation for a long time. One or more of the units may require additional unscheduled downtime for unanticipated maintenance or repairs that are more frequent than our scheduled turnaround for each unit every one to five years. Scheduled and unscheduled maintenance reduce our revenues during the period of time that our units are not operating and could reduce our ability to make distributions to our unitholders.

We are subject to strict regulations at many of our facilities regarding employee safety, and failure to comply with these regulations could reduce our ability to make distributions to our unitholders.

The workplaces associated with the refineries we operate are subject to the requirements of the federal OSHA and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that we maintain information about hazardous materials used or produced in our operations and that we provide this information to employees, state and local government authorities, and local residents. Failure to comply with OSHA requirements, including general industry standards, record keeping requirements and monitoring of occupational exposure to regulated substances could reduce our ability to make distributions to our unitholders if we are subjected to fines or significant compliance costs.

We face substantial competition from other refining companies.

The refining industry is highly competitive. Our competitors include large, integrated, major or independent oil companies that, because of their more diverse operations, larger refineries and stronger capitalization, may be better positioned than we are to withstand volatile industry conditions, including shortages or excesses of crude oil or refined products or intense price competition at the wholesale level. If we are unable to compete effectively, we may lose existing customers or fail to acquire new customers. For example, if a competitor attempts to increase market share by reducing prices, our operating results and cash available for distribution to our unitholders could be reduced.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

We had total outstanding debt of \$49.5 million as of December 31, 2006. We continue to have the ability to incur additional debt, including the ability to borrow up to \$225.0 million under our senior secured revolving credit facility, subject to borrowing base limitations in the credit agreement. Our level of indebtedness could have important consequences to us, including the following:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

covenants contained in our existing and future credit and debt arrangements will require us to meet financial tests that may affect our flexibility in planning for and reacting to changes in our business, including possible acquisition opportunities;

we will need a substantial portion of our cash flow to make principal and interest payments on our indebtedness, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders; and

our debt level will make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally.

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

Our credit agreements contain operating and financial restrictions that may restrict our business and financing activities.

The operating and financial restrictions and covenants in our credit agreements and any future financing agreements could restrict our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, our credit agreements restrict our ability to:

- incur indebtedness;
- grant liens;
- make certain acquisitions and investments;
- make capital expenditures above specified amounts;
- redeem or prepay other debt or make other restricted payments;
- enter into transactions with affiliates;
- enter into a merger, consolidation or sale of assets; and
- cease our crack spread hedging program.

Our ability to comply with the covenants and restrictions contained in our credit agreements may be affected by events beyond our control. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions, covenants, ratios or tests in our credit agreements, a significant portion of our indebtedness may become immediately due and payable, our ability to make distributions may be inhibited and our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, our obligations under our credit agreements are secured by substantially all of our assets, and if we are unable to repay our indebtedness under our credit agreements, the lenders could seek to foreclose on our assets.

An increase in interest rates will cause our debt service obligations to increase.

Borrowings under our revolving credit facility bear interest at a floating rate (8.25% as of December 31, 2006). Borrowings under our term loan facility bear interest at a floating rate (8.85% as of December 31, 2006). The rates are subject to adjustment based on fluctuations in the London Interbank Offered Rate (LIBOR) or prime rate. An increase in the interest rates associated with our floating-rate debt would increase our debt service costs and affect our results of operations and cash flow available for distribution to our unitholders. In addition, an increase in our interest rates could adversely affect our future ability to obtain financing or materially increase the cost of any additional financing.

Our business and operations could be adversely affected by terrorist attacks.

Since the September 11th terrorist attacks, the U.S. government has issued public warnings that indicate that energy assets might be specific targets of terrorist organizations. The continued threat of terrorism and the impact of military and other actions will likely lead to increased volatility in prices for natural gas and oil and could affect the markets for our products. These developments have subjected our operations to increased risk and, depending on their ultimate magnitude, could have a material adverse affect on our business. We do not carry any terrorism risk insurance.

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Due to our lack of asset and geographic diversification, adverse developments in our operating areas would reduce our ability to make distributions to our unitholders.

We rely exclusively on sales generated from products processed from the refineries we own. Furthermore, almost all of our assets and operations are located in northwest Louisiana. Due to our lack of diversification in asset type and location, an adverse development in these businesses or areas, including adverse developments due to catastrophic events or weather, decreased supply of crude oil feedstocks and/or decreased demand for refined petroleum products, would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets and in diverse locations.

We depend on key personnel for the success of our business and the loss of those persons could adversely affect our business and our ability to make distributions to our unitholders.

The loss of the services of any member of senior management or key employee could have an adverse effect on our business and reduce our ability to make distributions to our unitholders. We may not be able to locate or employ on acceptable terms qualified replacements for senior management or other key employees if their services were no longer available. Except with respect to Mr. Grube, neither we, our general partner nor any affiliate thereof has entered into an employment agreement with any member of our senior management team or other key personnel. Furthermore, we do not maintain any key-man life insurance.

We depend on unionized labor for the operation of our refineries. Any work stoppages or labor disturbances at these facilities could disrupt our business.

Substantially all of our operating personnel at our Princeton, Cotton Valley and Shreveport refineries are employed under collective bargaining agreements that expire in October 2008, March 2007 and April 2007, respectively. Our inability to renegotiate these agreements as they expire, any work stoppages or other labor disturbances at these facilities could have an adverse effect on our business and reduce our ability to make distributions to our unitholders. In addition, employees who are not currently represented by labor unions may seek union representation in the future, and any renegotiation of current collective bargaining agreements may result in terms that are less favorable to us.

The operating results for our fuels segment and the asphalt we produce and sell are seasonal and generally lower in the first and fourth quarters of the year.

The operating results for the fuel products segment and the selling prices of asphalt products we produce can be seasonal. Asphalt demand is generally lower in the first and fourth quarters of the year as compared to the second and third quarters due to the seasonality of road construction. Demand for gasoline is generally higher during the summer months than during the winter months due to seasonal increases in highway traffic. In addition, our natural gas costs can be higher during the winter months. Our operating results for the first and fourth calendar quarters may be lower than those for the second and third calendar quarters of each year as a result of this seasonality.

Risks Inherent in an Investment in Us

The families of our chairman and chief executive officer and president, The Heritage Group and certain of their affiliates own a 62.7% limited partner interest in us and own and control our general partner, which has sole responsibility for conducting our business and managing our operations. Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to other unitholders detriment.

The families of our chairman and chief executive officer and president, the Heritage Group, and certain of their affiliates own a 62.7% limited partner interest in us. In addition, The Heritage Group and the families of our chairman and chief executive officer and president own our general partner. Conflicts of interest may arise between our general partner and its affiliates, on the one hand, and us and our unitholders, on the other hand. As a result of

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these conflicts, the general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

our general partner is allowed to take into account the interests of parties other than us, such as its affiliates, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our unitholders;

our general partner has limited its liability and reduced its fiduciary duties under our partnership agreement and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty. As a result of purchasing common units, unitholders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;

our general partner determines the amount and timing of asset purchases and sales, borrowings, issuance of additional partnership securities, and reserves, each of which can affect the amount of cash that is distributed to unitholders;

our general partner determines which costs incurred by it and its affiliates are reimbursable by us;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or a capital expenditure for acquisitions or capital improvements, which does not. This determination can affect the amount of cash that is distributed to our unitholders and the ability of the subordinated units to convert to common units;

our general partner has the flexibility to cause us to enter into a broad variety of derivative transactions covering different time periods, the net cash receipts from which will increase operating surplus and adjusted operating surplus, with the result that our general partner may be able to shift the recognition of operating surplus and adjusted operating surplus between periods to increase the distributions it and its affiliates receive on their subordinated units and incentive distribution rights or to accelerate the expiration of the subordination period; and

in some instances, our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period.

The Heritage Group and certain of its affiliates may engage in limited competition with us.

Pursuant to the omnibus agreement, The Heritage Group and its controlled affiliates have agreed not to engage in, whether by acquisition or otherwise, the business of refining or marketing specialty lubricating oils, solvents and wax products as well as gasoline, diesel and jet fuel products in the continental United States (restricted business) for so long as it controls us. This restriction does not apply to certain assets and businesses which are more fully described under Item 13 Certain Relationships and Related Party Transactions Omnibus Agreement.

Although Mr. Grube is prohibited from competing with us pursuant to the terms of his employment agreement, the owners of our general partner, other than The Heritage Group, are not prohibited from competing with us.

Our partnership agreement limits our general partner's fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement:

Permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Examples include the exercise of its limited call right, its voting rights with respect to the units it owns, its registration rights and its determination whether or not to consent to any merger or consolidation of our partnership or amendment to our partnership agreement;

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Provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

Generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us. In determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

Provides that our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that such person's conduct was criminal.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

Unitholders have limited voting rights and are not entitled to elect our general partner or its directors.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management's decisions regarding our business. Unitholders did not elect our general partner or its board of directors, and will have no right to elect our general partner or its board of directors on an annual or other continuing basis. The board of directors of our general partner is chosen by the members of our general partner. Furthermore, if the unitholders were dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Even if unitholders are dissatisfied, they cannot remove our general partner without its consent.

The unitholders are unable initially to remove the general partner without its consent because the general partner and its affiliates will own sufficient units upon completion of the offering to be able to prevent its removal. The vote of the holders of at least 66 $\frac{2}{3}$ % of all outstanding units voting together as a single class is required to remove the general partner. The owners of our general partner and certain of their affiliates own 64.0% of our common and subordinated units. Also, if our general partner is removed without cause during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on the common units will be extinguished. A removal of the general partner under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests.

Cause is narrowly defined in our partnership agreement to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or willful misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of our general partner during the subordination period because of the unitholders' dissatisfaction with our

general partner's performance in managing our partnership will most likely result in the termination of the subordination period.

Our partnership agreement restricts the voting rights of those unitholders owning 20% or more of our common units.

Unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its

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affiliates, their transferees, and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

Control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party. The new members of our general partner would then be in a position to replace the board of directors and officers of our general partner with their own choices and thereby control the decisions taken by the board of directors.

We do not have our own officers and employees and rely solely on the officers and employees of our general partner and its affiliates to manage our business and affairs.

We do not have our own officers and employees and rely solely on the officers and employees of our general partner and its affiliates to manage our business and affairs. We can provide no assurance that our general partner will continue to provide us the officers and employees that are necessary for the conduct of our business nor that such provision will be on terms that are acceptable to us. If our general partner fails to provide us with adequate personnel, our operations could be adversely impacted and our cash available for distribution to unitholders could be reduced.

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

During the subordination period, our general partner, without the approval of our unitholders, may cause us to issue up to 3,233,000 additional common units until the completion of the Shreveport refinery expansion project. If, upon completion, this project increases cash flow from operations per unit, our general partner may cause us to issue up to 6,533,000 of additional common units. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without unitholder approval, in a number of circumstances described in our partnership agreement.

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

our unitholders' proportionate ownership interest in us may decrease;

the amount of cash available for distribution on each unit may decrease;

because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;

the relative voting strength of each previously outstanding unit may be diminished;

the market price of the common units may decline; and

the ratio of taxable income to distributions may increase.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Our partnership agreement does not give our unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of equity securities, which may effectively rank senior to the common units.

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Our general partner's determination of the level of cash reserves may reduce the amount of available cash for distribution to unitholders.

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

Cost reimbursements due to our general partner and its affiliates will reduce cash available for distribution to unitholders.

Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates for all expenses they incur on our behalf. Any such reimbursement will be determined by our general partner and will reduce the cash available for distribution to unitholders. These expenses will include all costs incurred by our general partner and its affiliates in managing and operating us. Please read Item 13 Certain Relationships and Related Party Transactions.

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

If at any time our general partner and its affiliates own more than 80% of the issued and outstanding common units, our general partner will have the right, but not the obligation, which right it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, unitholders may be required to sell their common units to our general partner, its affiliates or us at an undesirable time or price and may not receive any return on their investment. Unitholders may also incur a tax liability upon a sale of their common units. Our general partner and its affiliates own approximately 35.2% of the common units. At the end of the subordination period, assuming no additional issuances of common units, our general partner and its affiliates will own approximately 64.0% of the common units.

Unitholder liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. Unitholders could be liable for any and all of our obligations as if they were a general partner if:

a court or government agency determined that we were conducting business in a state but had not complied with that particular state's partnership statute; or

unitholders' right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

Unitholders may have liability to repay distributions that were wrongfully distributed to them.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, which we call the Delaware Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount.

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Purchasers of units who become limited partners are liable for the obligations of the transferring limited partner to make contributions to the partnership that are known to the purchaser of the units at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

Our common units have a limited trading history compared to other units representing limited partner interests.

Our common units are traded publicly on the NASDAQ Global Market under the symbol CLMT. However, our common units have a limited trading history compared to many other units representing limited partner interests quoted on the NASDAQ. The price of our common units may continue to be volatile.

The market price of our common units may also be influenced by many factors, some of which are beyond our control, including:

our quarterly distributions;

our quarterly or annual earnings or those of other companies in our industry;

changes in commodity prices or refining margins;

loss of a large customer;

announcements by us or our competitors of significant contracts or acquisitions;

changes in accounting standards, policies, guidance, interpretations or principles;

general economic conditions;

the failure of securities analysts to cover our common units after this offering or changes in financial estimates by analysts;

future sales of our common units; and

the other factors described in Item 1A Risk Factors of our Annual Report on Form 10-K.

Tax Risks to Common Unitholders

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by individual states. If the Internal Revenue Service, or IRS, treats us as a corporation or we become subject to entity-level taxation for state tax purposes, it would substantially reduce the amount of cash available for distribution to common unitholders.

The anticipated after-tax economic benefit of an investment in the common units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other tax matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our income at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates.

Distributions to common unitholders would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to the common unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution to our unitholders would be substantially reduced. Therefore, our treatment as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the value of our common units.

Current law may change so as to cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. If any of these states were to impose a tax on us, the cash available for distribution to common unitholders would be reduced. The partnership agreement provides that if a law is enacted or existing law

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

A successful IRS contest of the federal income tax positions we take may adversely affect the market for our common units, and the cost of any IRS contest will reduce our cash available for distribution to our unitholders.

The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take. A court may not agree with some or all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

Unitholders may be required to pay taxes on income from us even if they do not receive any cash distributions from us.

Because our unitholders will be treated as partners to whom we will allocate taxable income which could be different in amount than the cash we distribute, unitholders will be required to pay any federal income taxes and, in some cases, state and local income taxes on their share of our taxable income even if they receive no cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the tax liability that results from that income.

Tax gain or loss on disposition of common units could be more or less than expected.

If a common unitholder sells his or her common units, he or she will recognize a gain or loss equal to the difference between the amount realized and their tax basis in those common units. Prior distributions to a common unitholder in excess of the total net taxable income they were allocated for a common unit, which decreased their tax basis in that common unit, will, in effect, become taxable income to them if the common unit is sold at a price greater than their tax basis in that common unit, even if the price is less than their original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income. In addition, if a common unitholder sells their units, they may incur a tax liability in excess of the amount of cash they receive from the sale.

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

Investment in our common units by tax-exempt entities, such as individual retirement accounts (IRAs), other retirement plans, and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file United States federal tax returns and pay tax on their share of our taxable income.

We treat each purchaser of our common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we take depreciation and amortization positions that may not conform to all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to our unitholders tax returns.

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Unitholders may be subject to state and local taxes and return filing requirements.

In addition to federal income taxes, our common unitholders will likely be subject to other taxes, including foreign, state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property, even if unitholders do not live in any of those jurisdictions. Our common unitholders will likely be required to file foreign, state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, unitholders may be subject to penalties for failure to comply with those requirements. We own assets and/or do business in Arkansas, California, Connecticut, Florida, Georgia, Indiana, Illinois, Kentucky, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New York, Ohio, South Carolina, Pennsylvania, Texas, Utah and Virginia. Each of these states, other than Texas and Florida, currently imposes a personal income tax as well as an income tax on corporations and other entities. As we make acquisitions or expand our business, we may own assets or do business in additional states that impose a personal income tax. It is the responsibility of our common unitholders to file all United States federal, foreign, state and local tax returns.

We have a subsidiary that is treated as a corporation for federal income tax purposes and subject to corporate-level income taxes.

We conduct all or a portion of our operations in which we market finished petroleum products to certain end-users through a subsidiary that is organized as a corporation. We may elect to conduct additional operations through this corporate subsidiary in the future. This corporate subsidiary is subject to corporate-level tax, which will reduce the cash available for distribution to us and, in turn, to our unitholders. If the IRS were to successfully assert that this corporation has more tax liability than we anticipate or legislation was enacted that increased the corporate tax rate, our cash available for distribution to our unitholders would be further reduced.

The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. If this occurs, our unitholders will be allocated an increased amount of federal taxable income for the year in which we are considered to be terminated as a percentage of the cash distributed to our unitholders with respect to that period.

Item 1B. *Unresolved Staff Comments*

None.

Item 3. *Legal Proceedings*

We are not a party to any material litigation. Our operations are subject to a variety of risks and disputes normally incident to our business. As a result, we may, at any given time, be a defendant in various legal proceedings and litigation arising in the ordinary course of business. Please see Items 1 and 2 Business and Properties Environmental Matters for a description of our current regulatory matters related to the environment.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

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Our common units are quoted and traded on the NASDAQ Global Market under the symbol CLMT. Our common units began trading on January 26, 2006 at an initial public offering price of \$21.50. Prior to that date, there was no public market for our common units. The following table shows the low and high sales prices per common unit, as reported by NASDAQ, for the periods indicated. During each quarter in the year ended December 31, 2006, identical cash distributions per unit were paid among all outstanding common and subordinated units.

	Low	High	Cash Distribution per Unit
Year ended December 31, 2006:			
First quarter(1)	\$ 21.70	\$ 27.95	\$ 0.30(2)
Second quarter	\$ 27.11	\$ 36.94	\$ 0.45
Third quarter	\$ 28.79	\$ 32.58	\$ 0.55
Fourth quarter	\$ 29.80	\$ 44.21	\$ 0.60

(1) Represents the period from January 26, 2006, the day our common units began trading on the NASDAQ, through March 31, 2006.

(2) Reflects the pro rata portion of the \$0.45 quarterly distribution per unit paid, representing the period from the January 31, 2006 closing of our initial public offering through March 31, 2006.

As of February 9, 2007, there were approximately 14 unitholders of record of our common units. This number does not include unitholders whose units are held in trust by other entities. The actual number of unitholders is greater than the number of holders of record. As of February 9, 2007, there were 29,432,000 units outstanding. The number of units outstanding on this date includes the 13,066,000 subordinated units for which there is no established trading market. The last reported sale price of our common units by NASDAQ on February 9, 2007 was \$44.89.

Cash Distribution Policy

General. Within 45 days after the end of each quarter, we distribute our available cash (as defined in the partnership agreement) to unitholders of record on the applicable record date.

Available Cash. Available cash generally means, for any quarter, all cash on hand at the end of the quarter:

less the amount of cash reserves established by our general partner to:

provide for the proper conduct of our business;

comply with applicable law, any of our debt instruments or other agreements; or

provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters.

plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter for which the determination is being made. Working capital borrowings are generally borrowings that will be made under our revolving credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

Intent to Distribute the Minimum Quarterly Distribution. We distribute to the holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of \$0.45 per unit, or \$1.80 per year, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the

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minimum quarterly distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of our partnership agreement. We will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our credit agreements. Please read Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt and Credit Facilities for a discussion of the restrictions in our credit agreements that restrict our ability to make distributions. On February 14, 2007, we paid a quarterly cash distribution of \$0.60 per unit on all outstanding units totaling \$18.7 million for the quarter ended December 31, 2006 to all unitholders of record as of the close of business on February 4, 2007.

General Partner Interest and Incentive Distribution Rights. Our general partner is entitled to 2% of all quarterly distributions since inception that we make prior to our liquidation. This general partner interest is represented by 600,653 general partner units. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. The general partner's 2% interest in these distributions may be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its 2% general partner interest. Our general partner also currently holds incentive distribution rights that entitle it to receive increasing percentages, up to a maximum of 50%, of the cash we distribute from operating surplus (as defined below) in excess of \$0.45 per unit. The maximum distribution of 50% includes distributions paid to our general partner on its 2% general partner interest, and assumes that our general partner maintains its general partner interest at 2%. The maximum distribution of 50% does not include any distributions that our general partner may receive on units that it owns. We paid \$0.3 million to our general partner in incentive distributions pursuant to its incentive distribution rights during the year ended December 31, 2006.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized as either operating surplus or capital surplus. Our partnership agreement requires that we distribute available cash from operating surplus differently than available cash from capital surplus.

Operating Surplus. Operating surplus generally consists of:

our cash balance on the closing date of the initial public offering; plus

\$10.0 million (as described below); plus

all of our cash receipts after the closing of the initial public offering, excluding cash from (1) borrowings that are not working capital borrowings, (2) sales of equity and debt securities and (3) sales or other dispositions of assets outside the ordinary course of business; plus

working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

all of our operating expenditures after the closing of the initial public offering (including the repayment of working capital borrowings, but not the repayment of other borrowings) and maintenance capital expenditures; less

the amount of cash reserves established by our general partner for future operating expenditures.

Maintenance capital expenditures represent capital expenditures made to replace partially or fully depreciated assets, to maintain the existing operating capacity of our assets and to extend their useful lives, or other capital expenditures that are incurred in maintaining existing system volumes and related cash flows. Expansion capital expenditures represent capital expenditures made to expand the existing operating capacity of our assets or to expand the operating capacity or revenues of existing or new assets, whether through construction or acquisition. Costs for repairs and minor renewals to maintain facilities in operating condition and that do not extend the useful life of existing assets will be treated as operations and maintenance expenses as we incur them. Our partnership agreement provides that our general partner determines how to allocate a capital expenditure for the acquisition or expansion of our assets between maintenance capital expenditures and expansion capital expenditures.

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Capital Surplus. Capital surplus consists of:

borrowings other than working capital borrowings;

sales of our equity and debt securities; and

sales or other dispositions of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirement or replacement of assets.

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As reflected above, operating surplus includes \$10.0 million. This amount does not reflect actual cash on hand that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to this amount of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities and borrowings, that would otherwise be distributed as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

Subordination Period

General. Our partnership agreement provides that, during the subordination period (which we define below), the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.45 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. These units are deemed subordinated because for a period of time, referred to as the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters. Furthermore, no arrearages will be paid on the subordinated units. The practical effect of the existence of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units. As of the closing of our initial public offering, all of the outstanding subordinated units are owned by affiliates of our general partner.

Subordination Period. The subordination period will extend until the first day of any quarter beginning after December 31, 2010 that each of the following tests are met:

distributions of available cash from operating surplus on each of the outstanding common units, subordinated units and general partner units equaled or exceeded the minimum quarterly distributions on such common units, subordinated units and general partner units for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

the adjusted operating surplus (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, subordinated units and general partner units during those periods on a fully diluted basis; and

there are no arrearages in payment of minimum quarterly distributions on the common units.

Expiration of the Subordination Period. When the subordination period expires, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by the general partner and its affiliates are not voted in favor of such removal:

the subordination period will end and each subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

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the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Adjusted Operating Surplus. Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods. Adjusted operating surplus consists of:

operating surplus generated with respect to that period; less

any net increase in working capital borrowings with respect to that period; less

any net decrease in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

any net decrease in working capital borrowings with respect to that period; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Distributions of Available Cash from Operating Surplus During the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

first, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

second, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;

third, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

thereafter, in the manner described in Incentive Distribution Rights below.

The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

Distributions of Available Cash from Operating Surplus After the Subordination Period

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

first, 98% to all unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and

thereafter, in the manner described in Incentive Distribution Rights below.

The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

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If for any quarter:

we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and

we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and the general partner in the following manner:

first, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder receives a total of \$0.495 per unit for that quarter (the first target distribution);

second, 85% to all unitholders, pro rata, and 15% to the general partner, until each unitholder receives a total of \$0.563 per unit for that quarter (the second target distribution);

third, 75% to all unitholders, pro rata, and 25% to the general partner, until each unitholder receives a total of \$0.675 per unit for that quarter (the third target distribution); and

thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution. The preceding discussion is based on the assumptions that our general partner maintains its 2% general partner interest and that we do not issue additional classes of equity securities.

Percentage Allocations of Available Cash from Operating Surplus

The following table illustrates the percentage allocations of the additional available cash from operating surplus between the unitholders and our general partner up to the various target distribution levels. The amounts set forth under *Marginal Percentage Interest in Distributions* are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column *Total Quarterly Distribution*, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2% general partner interest and assume our general partner has contributed any additional capital to maintain its 2% general partner interest and has not transferred its incentive distribution rights.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
Minimum Quarterly Distribution	\$0.45	98%	2%

First Target Distribution	up to \$0.495	98%	2%
Second Target Distribution	above \$0.495 up to \$0.563	85%	15%
Third Target Distribution	above \$0.563 up to \$0.675	75%	25%
Thereafter	above \$0.675	50%	50%

Distributions from Capital Surplus

How Distributions from Capital Surplus Will Be Made. Our partnership agreement requires that we make distributions of available cash from capital surplus, if any, in the following manner:

first, 98% to all unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit that was issued in this offering, an amount of available cash from capital surplus equal to the initial public offering price;

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second, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. Our partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from this initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in our initial public offering in an amount equal to the initial unit price, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels will be reduced to zero. Our partnership agreement specifies that we then make all future distributions from operating surplus, with 50% being paid to the holders of units and 50% to the general partner. The percentage interests shown for our general partner include its 2% general partner interest and assume the general partner has not transferred the incentive distribution rights.

Equity Compensation Plans

The equity compensation plan information required by Item 201(d) of Regulation S-K in response to this item is incorporated by reference into Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters, of this Annual Report on Form 10-K.

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table summarizes the purchases of equity securities by Calumet GP, LLC, the general partner of Calumet.

Total Number of Common Units	Average Price Paid	Total Number of Common Units Purchased as a Part of Publicly	Maximum Number of Common Units that May Yet be
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	Purchased(1)	per Common Unit	Announced Plans	Purchased Under Plans
On December 4, 2006	1,824	\$ 38.01		
Total	1,824	\$ 38.01		

(1) None of the common units were purchased pursuant to publicly announced plans or programs. The common units were purchased through a single broker in open market transactions. A total of 1,824 common units were purchased by Calumet GP, LLC, our general partner, related to the Calumet GP, LLC Long-Term Incentive Plan (the Plan). The Plan provides for the delivery of up to 783,960 common units to satisfy awards of phantom units, restricted units or unit options to the employees, consultants or directors of Calumet. Such units may be newly issued by Calumet or purchased in the open market. For more information on the Plan, which did not require approval by our limited partners, refer to Item 11 Executive and Director Compensation Compensation Discussion and Analysis Elements of Executive Compensation Long-Term, Unit-Based Awards.

Table of Contents**Item 6. Selected Financial and Operating Data**

The following table shows selected historical financial and operating data of Calumet Specialty Products Partners, L.P. and its consolidated subsidiaries (Calumet) and Calumet Lubricants Co., Limited Partnership (Predecessor). The selected historical financial data as of December 31, 2005, 2004, 2003 and 2002 and for the years ended December 31, 2005, 2004, 2003 and 2002, are derived from the consolidated financial statements of the Predecessor. 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.

None of the assets or liabilities of the Predecessor's Rouseville wax processing facility, Reno wax packaging facility and Bareco wax marketing joint venture, which are included in the historical financial statements, were contributed to us at the closing of the initial public offering on January 31, 2006.

The following table includes the non-GAAP financial measures EBITDA and Adjusted EBITDA. For a reconciliation of EBITDA and Adjusted EBITDA to net income and net cash provided by (used in) operating activities, our most directly comparable financial performance and liquidity measures calculated in accordance with GAAP, please read Non-GAAP Financial Measures.

We derived the information in the following table from, and that information should be read together with and is qualified in its entirety by reference to, the historical consolidated financial statements and the accompanying notes included in Item 8 Financial Statements of this Annual Report on Form 10-K except for operating data such as sales volume, feedstock runs and refinery production. The table also should be read together with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Calumet	Predecessor			
		Year Ended December 31,			
	2006	2005	2004	2003	2002
		(In thousands)			
Summary of Operations Data:					
Sales	\$ 1,641,048	\$ 1,289,072	\$ 539,616	\$ 430,381	\$ 316,350
Cost of sales	1,437,804	1,148,715	501,284	385,890	268,911
Gross profit	203,244	140,357	38,332	44,491	47,439
Operating costs and expenses:					
Selling, general and administrative	20,430	22,126	13,133	9,432	9,066
Transportation	56,922	46,849	33,923	28,139	25,449
Taxes other than income taxes	3,592	2,493	2,309	2,419	2,404
Other	863	871	839	905	1,392
Restructuring, decommissioning and asset impairments(1)		2,333	317	6,694	
Total operating income (loss)	121,437	65,685	(12,189)	(3,098)	9,128
Other income (expense):			(427)	867	2,442

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Equity in income (loss) of unconsolidated affiliates					
Interest expense	(9,030)	(22,961)	(9,869)	(9,493)	(7,435)
Interest income	2,951	204	17		
Debt extinguishment costs	(2,967)	(6,882)			
Realized gain (loss) on derivative instruments	(30,309)	2,830	39,160	(961)	1,058
Unrealized gain (loss) on derivative instruments	12,264	(27,586)	(7,788)	7,228	
Other	(274)	38	66	32	88
Total other income (expense)	(27,365)	(54,357)	21,159	(2,327)	(3,847)
Net income (loss) before income taxes	94,072	11,328	8,970	(5,425)	5,281
Income tax expense	190				
Net income (loss)	\$ 93,882	\$ 11,328	\$ 8,970	\$ (5,425)	\$ 5,281

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	Calumet		Predecessor		
	2006	2005	Year Ended December 31,		2002
			2004	2003	
	(In thousands)				
Balance Sheet Data (at period end):					
Property, plant and equipment, net	\$ 191,732	\$ 127,846	\$ 126,585	\$ 89,938	\$ 85,995
Total assets	530,174	399,717	318,206	216,941	217,915
Accounts payable	78,752	44,759	58,027	32,263	34,072
Long-term debt	49,500	267,985	214,069	146,853	141,968
Partners capital	378,685	39,054	34,514	25,544	30,968
Cash Flow Data:					
Net cash flow provided by (used in):					
Operating activities	\$ 166,768	\$ (34,001)	\$ (612)	\$ 7,048	\$ (4,326)
Investing activities	(75,803)	(12,903)	(42,930)	(11,940)	(9,924)
Financing activities	(22,183)	40,990	61,561	4,884	14,209
Other Financial Data:					
EBITDA	\$ 117,890	\$ 51,557	\$ 25,766	\$ 10,837	\$ 18,592
Adjusted EBITDA	104,458	85,821	34,711	6,110	16,277
Operating Data (bpd):					
Total sales volume(2)	50,345	46,953	24,658	23,616	19,110
Total feedstock runs(3)	51,598	50,213	26,205	25,007	21,665
Total refinery production(4)	50,213	48,331	26,297	25,204	21,587

- (1) Incurred in connection with the decommissioning of the Rouseville, Pennsylvania facility, the termination of the Bareco joint venture and the closing of the Reno, Pennsylvania facility, none of which were contributed to Calumet Specialty Products Partners, L.P. in connection with the closing of our initial public offering.
- (2) Total sales volume includes sales from the production of our refineries and sales of inventories.
- (3) Feedstock runs represents the barrels per day of crude oil and other feedstocks processed at our refineries.
- (4) Total refinery production represents the barrels per day of specialty products and fuel products yielded from processing crude oil and other refinery 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.

Non-GAAP Financial Measures

We include in this Annual Report on Form 10-K the non-GAAP financial measures EBITDA and Adjusted EBITDA, and provide reconciliations of EBITDA and Adjusted EBITDA to net income and net cash provided by (used in) operating activities, our most directly comparable financial performance and liquidity measures calculated and presented in accordance with GAAP.

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

the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;

the ability of our assets to generate cash sufficient to pay interest costs, support our indebtedness, and meet minimum quarterly distributions;

our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and

the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

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We define EBITDA as net income plus interest expense (including debt issuance and extinguishment costs), taxes and depreciation and amortization. We define Adjusted EBITDA to be Consolidated EBITDA as defined in our credit facilities. Consistent with that definition, Adjusted EBITDA means, for any period: (1) net income plus (2)(a) interest expense; (b) taxes; (c) depreciation and amortization; (d) unrealized losses from mark to market accounting for hedging activities; (e) unrealized items decreasing net income (including the non-cash impact of restructuring, decommissioning and asset impairments in the periods presented); and (f) other non-recurring expenses reducing net income which do not represent a cash item for such period; minus (3)(a) tax credits; (b) unrealized items increasing net income (including the non-cash impact of restructuring, decommissioning and asset impairments in the periods presented); (c) unrealized gains from mark to market accounting for hedging activities; and (d) other non-recurring expenses and unrealized items that reduced net income for a prior period, but represent a cash item in the current period. We are required to report Adjusted EBITDA to our lenders under our credit facilities and it is used to determine our compliance with the consolidated leverage test thereunder. We are required to maintain a consolidated leverage ratio of consolidated debt to Adjusted EBITDA, after giving effect to any proposed distributions, of no greater than 3.75 to 1 in order to make distributions to our unitholders.

EBITDA and Adjusted EBITDA should not be considered alternatives to net income, operating income or net cash provided by (used in) operating activities or any other measure of financial performance presented in accordance with GAAP. Our EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA and Adjusted EBITDA in the same manner. The following table presents a reconciliation of both net income to EBITDA and Adjusted EBITDA and Adjusted EBITDA and EBITDA to net cash provided by (used in) operating activities, our most directly comparable GAAP financial performance and liquidity measures, for each of the periods indicated.

	Calumet	Predecessor			
	2006	Year Ended December 31,			2002
		2005	2004	2003	
		(In thousands)			
Reconciliation of net income to EBITDA and Adjusted EBITDA:					
Net income (loss)	\$ 93,882	\$ 11,328	\$ 8,970	\$ (5,425)	\$ 5,281
Add:					
Interest expense and debt extinguishment costs	11,997	29,843	9,869	9,493	7,435
Depreciation and amortization	11,821	10,386	6,927	6,769	5,876
Income tax expense	190				
EBITDA	\$ 117,890	\$ 51,557	\$ 25,766	\$ 10,837	\$ 18,592
Add:					
Unrealized losses (gains) from mark to market accounting for hedging activities	\$ (13,145)	\$ 27,586	\$ 7,788	\$ (7,228)	\$
Non-cash impact of restructuring, decommissioning and asset impairments		1,766	(1,276)	2,250	
Prepaid non-recurring expenses and accrued non-recurring expenses, net of cash outlays	(287)	4,912	2,433	251	(2,315)

Adjusted EBITDA	\$ 104,458	\$ 85,821	\$ 34,711	\$ 6,110	\$ 16,277
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	Calumet	Predecessor			
		Year Ended December 31,			
	2006	2005	2004	2003	2002
	(In thousands)				
Reconciliation of Adjusted EBITDA and EBITDA to net cash provided by (used in) operating activities:					
Adjusted EBITDA	\$ 104,458	\$ 85,821	\$ 34,711	\$ 6,110	\$ 16,277
Add:					
Unrealized (losses) gains from mark to market accounting for hedging activities	13,145	(27,586)	(7,788)	7,228	
Non-cash impact of restructuring, decommissioning and asset impairments		(1,766)	1,276	(2,250)	
Prepaid non-recurring expenses and accrued non-recurring expenses, net of cash outlays	287	(4,912)	(2,433)	(251)	2,315
EBITDA	\$ 117,890	\$ 51,557	\$ 25,766	\$ 10,837	\$ 18,592
Add:					
Interest expense and debt extinguishment costs	(11,997)	(29,843)	(9,869)	(9,493)	(7,435)
Income taxes	(190)				
Restructuring charge		1,693		874	
Provision for doubtful accounts	172	294	216	12	16
Equity in (loss) income of unconsolidated affiliates			427	(867)	(2,442)
Dividends received from unconsolidated affiliates			3,470	750	2,925
Debt extinguishment costs	2,967	4,173			
Changes in assets and liabilities:					
Accounts receivable	16,031	(56,878)	(19,399)	(4,670)	(1,025)
Inventory	(2,554)	(25,441)	(20,304)	15,547	(16,984)
Other current assets	16,183	569	(11,596)	(563)	1,295
Derivative activity	(13,143)	31,598	5,046	(6,265)	(3,682)
Accounts payable	33,993	(13,268)	25,764	(1,809)	9,587
Accrued liabilities	3,083	5,874	1,203	1,379	(2,622)
Other, including changes in noncurrent assets and liabilities	4,333	(4,329)	(1,336)	1,316	(2,551)
Net cash provided by (used in) operating activities	\$ 166,768	\$ (34,001)	\$ (612)	\$ 7,048	\$ (4,326)

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

The historical consolidated financial statements included in this Annual Report on Form 10-K reflect all of the assets, liabilities and results of operations of Calumet Specialty Products Partners, L.P. (Calumet) when used in the present tense, prospectively or for historical periods since January 31, 2006 and Calumet Lubricants Co., Limited Partnership (Predecessor) for historical periods prior to January 31, 2006 where applicable. These historical consolidated financial statements include the results of operations of the Rouseville and Reno facilities, which have been closed. The following discussion analyzes the financial condition and results of operations of Calumet for the year ended December 31, 2006 and the Predecessor for the years ended December 31, 2005 and 2004. The financial condition and results of operations for the year ended December 31, 2006 are of Calumet and include the results of operation of the Predecessor from January 1, 2006 to January 31, 2006. Unitholders should read the following discussion and analysis of the financial condition and results of operations for Calumet in conjunction with the historical consolidated financial statements and notes of Calumet included elsewhere in this Annual Report on Form 10-K.

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 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. The asphalt and other by-products produced in connection with the production of specialty products at the Princeton, Cotton Valley and Shreveport refineries are included in our specialty products segment. The by-products produced in connection with the production of fuel products at the Shreveport refinery are included in our fuel products segment. The fuels produced in connection with the production of specialty products at the Princeton and Cotton Valley refineries are included in our specialty products segment. For the year ended December 31, 2006, approximately 74.9% of our gross profit was generated from our specialty products segment and approximately 25.1% of our gross profit was generated from our fuel products segment.

Subsequent to the acquisition of the Shreveport refinery, our Predecessor streamlined its wax processing and marketing operations by decommissioning its Rouseville facility, closing its Reno facility and terminating its Bareco wax marketing joint venture. None of the assets or liabilities of our Predecessor's Rouseville facility, Reno facility or Bareco joint venture were contributed to Calumet Specialty Products Partners, L.P. in connection with the closing of our initial public offering on January 31, 2006. Our Predecessor began decommissioning the Rouseville facility in 2003 and completed the decommissioning in 2005. This resulted in restructuring costs of \$6.7 million in 2003 and \$0.3 million in 2004. In 2005, our Predecessor closed the Reno facility for a restructuring and decommissioning cost of \$2.2 million. The combined net book value of the Reno and Rouseville operations was not included within the net assets contributed to Calumet by our Predecessor, and therefore are not included within our results of operations subsequent to January 31, 2006.

Our fuel products segment began operations in 2004, as we substantially completed the approximately \$39.7 million reconfiguration of the Shreveport refinery to add motor fuels production, including gasoline, diesel and jet fuel, to its existing specialty products slate as well as to increase overall feedstock throughput. The project was fully completed in February 2005. The reconfiguration was undertaken to capitalize on strong fuels refining margins, or crack spreads,

relative to historical levels, to utilize idled assets, and to enhance the profitability of the Shreveport refinery's specialty products segment by increasing overall refinery throughput. We have commenced construction of an expansion project at our Shreveport refinery to increase throughput capacity and feedstock flexibility. Please read "Liquidity and Capital Resources" "Capital Expenditures" below.

Our sales and net income are principally affected by the price of crude oil, demand for specialty and fuel products, prevailing crack spreads for fuel products, the price of natural gas used as fuel in our operations and our results from derivative instrument activities.

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Our primary raw material is crude oil and our primary outputs are specialty petroleum and fuel products. The prices of crude oil, specialty and fuel products are subject to fluctuations in response to changes in supply, demand, market uncertainties and a variety of additional factors beyond our control. We monitor these risks and enter into financial derivatives designed to mitigate the impact of commodity price fluctuations on our business. The primary purpose of our commodity risk management activities is to economically hedge our cash flow exposure to commodity price risk so that we can meet our cash distribution, debt service and capital expenditure requirements despite fluctuations in crude oil and fuel products prices. We enter into derivative contracts for future periods in quantities which do not exceed our projected purchases of crude oil and sales of fuel products. Please read Item 7A Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk. As of December 31, 2006, we have hedged 28.8 million barrels of fuel products selling prices through December 2011 at an average refining margin of \$12.00 per barrel and average refining margins range from a low of \$9.13 in 2011 to a high of \$12.66 in the third and fourth quarters of 2007. Please refer to Item 7A Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk Existing Commodity Derivative Instruments for a detailed listing of our hedge positions.

Our management uses several financial and operational measurements to analyze our performance. These measurements include the following:

Sales volumes;

Production yields; and

Specialty products and fuel products gross profit.

Sales volumes. We view the volumes of specialty and fuels products sold as an important measure of our ability to effectively utilize our refining assets. Our ability to meet the demands of our customers is driven by the volumes of crude oil and feedstocks that we run at our refineries. Higher volumes improve profitability both through the spreading of fixed costs over greater volumes and the additional gross profit achieved on the incremental volumes.

Production yields. We seek the optimal product mix for each barrel of crude oil we refine in order to maximize our gross profits and minimize lower margin by-products which we refer to as production yield.

Specialty products and fuel products gross profit. Specialty products and fuel products gross profit are an important measure of our ability to maximize the profitability of our specialty products and fuel products segments. We define specialty products and fuel products gross profit as sales less the cost of crude oil and other feedstocks and other production-related expenses, the most significant portion of which include labor, fuel, utilities, contract services, maintenance and processing materials. We use specialty products and fuel products gross profit as an indicator of our ability to manage our business during periods of crude oil and natural gas price fluctuations, as the prices of our specialty products and fuel products generally do not change immediately with changes in the price of crude oil and natural gas. The increase in selling prices typically lags behind the rising costs of crude oil feedstocks for specialty products. Other than plant fuel, production-related expenses generally remain stable across broad ranges of throughput volumes, but can fluctuate depending on the maintenance and turnaround activities performed during a specific period. Maintenance expense includes accruals for turnarounds and other maintenance expenses.

In addition to the foregoing measures, we also monitor our general and administrative expenditures, substantially all of which are incurred through our general partner, Calumet GP, LLC.

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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,		
	2006	2005	2004
Total sales volume (bpd)(1)	50,345	46,953	24,658
Total feedstock runs (bpd)(2)	51,598	50,213	26,205
Refinery production (bpd)(3):			
Specialty products:			
Lubricating oils	11,436	11,556	9,437
Solvents	5,361	4,422	4,973
Waxes	1,157	1,020	1,010
Asphalt and other by-products	6,596	6,313	5,992
Fuels	2,038	2,354	3,931
Total	26,588	25,665	25,343
Fuel products:			
Gasoline	9,430	8,278	3
Diesel	6,823	8,891	583
Jet fuel	6,911	5,080	342
By-products	461	417	26
Total	23,625	22,666	954
Total refinery production	50,213	48,331	26,297

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

(2) Feedstock runs represents the barrels per day of crude oil and other feedstocks processed at our refineries.

(3) Total refinery production represents the barrels per day of specialty products and fuel products yielded from processing crude oil and other refinery 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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The following table sets forth information about the sales of our principal products.

	Calumet	Predecessor	
	Year Ended December 31,	Year Ended December 31,	Year Ended December 31,
	2006	2005	2004
	(In millions)		
Specialty products:			
Lubricating oils	\$ 509.9	\$ 394.4	\$ 251.9
Solvents	201.9	145.0	114.7
Waxes	61.2	43.6	39.5
Fuels	41.3	44.0	72.7
Asphalt and other by-products	98.8	76.3	51.2
Total	913.1	703.3	530.0
Fuel products:			
Gasoline	336.7	223.6	
Diesel	207.1	230.9	3.3
Jet fuel	176.4	121.3	
By-products	7.7	10.0	6.3
Total	727.9	585.8	9.6
Consolidated sales	\$ 1,641.0	\$ 1,289.1	\$ 539.6

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The following table reflects our consolidated results of operations.

	Calumet Year Ended December 31, 2006	Predecessor Year Ended December 31, 2005	2004
	(In millions)		
Sales	\$ 1,641.0	\$ 1,289.1	\$ 539.6
Cost of sales	1,437.8	1,148.7	501.3
Gross profit	203.2	140.4	38.3
Operating costs and expenses:			
Selling, general and administrative	20.4	22.1	13.1
Transportation	56.9	46.9	34.0
Taxes other than income taxes	3.6	2.5	2.3
Other	0.9	0.9	0.8
Restructuring, decommissioning and asset impairments		2.3	0.3
Operating income (loss)	121.4	65.7	(12.2)
Other income (expense):			
Equity in loss of unconsolidated affiliates			(0.4)
Interest expense	(9.0)	(23.0)	(9.9)
Interest income	3.0	0.2	
Debt extinguishment costs	(3.0)	(6.9)	
Realized gain (loss) on derivative instruments	(30.3)	2.8	39.2
Unrealized gain (loss) on derivative instruments	12.3	(27.6)	(7.8)
Other	(0.3)	0.1	0.1
Total other income (expense)	(27.3)	(54.4)	21.2
Net income before income taxes	94.1	11.3	9.0
Income tax expense	(0.2)		
Net income	\$ 93.9	\$ 11.3	\$ 9.0

Table of Contents**Year Ended December 31, 2006 Compared to Year Ended December 31, 2005**

Sales. Sales increased \$352.0 million, or 27.3%, to \$1,641.0 million in the year ended December 31, 2006 from \$1,289.1 million in the year ended December 31, 2005. Sales for each of our principal product categories in these periods were as follows:

	Calumet	Predecessor	
	Year Ended December 31,		
	2006	2005	%
	(Dollars in millions)		Change
Sales by segment:			
Specialty products:			
Lubricating oils	\$ 509.9	\$ 394.4	29.3%
Solvents	201.9	145.0	39.3%
Waxes	61.2	43.6	40.2%
Fuels(1)	41.3	44.0	(6.2)%
Asphalt and by-products(2)	98.8	76.3	29.6%
Total specialty products	913.1	703.3	29.9%
Total specialty products sales volume (in barrels)	9,165,000	8,900,000	3.0%
Fuel products:			
Gasoline	\$ 336.7	\$ 223.6	50.6%
Diesel	207.1	230.9	(10.3)%
Jet fuel	176.4	121.3	45.4%
By-products(3)	7.7	10.0	(23.1)%
Total fuel products	727.9	585.8	24.2%
Total fuel products sales volumes (in barrels)	9,211,000	8,238,000	11.8%
Total sales	\$ 1,641.0	\$ 1,289.1	27.3%
Total sales volumes (in barrels)	18,376,000	17,138,000	7.2%

(1) Represents fuels produced in connection with the production of specialty products at the Princeton and Cotton Valley refineries.

(2) Represents asphalt and other by-products produced in connection with the production of specialty products at the Princeton, Cotton Valley and Shreveport refineries.

(3) Represents by-products produced in connection with the production of fuels at the Shreveport refinery.

This \$352.0 million increase in sales resulted from a \$209.9 million increase in sales by the specialty products segment and a \$142.0 increase in sales in the fuel products segment.

Specialty products segment sales for the year ended December 31, 2006 increased \$209.9 million, or 29.9%, primarily due to a 26.1% increase in the average selling price per barrel across all product lines and a more favorable product mix of lubricating oils and solvents. Average selling prices per barrel for lubricating oils, solvents, waxes, fuels, and asphalt and by-product increased at rates comparable to or in excess of the overall 15.6% increase in the cost of crude oil per barrel during the period. In addition, specialty products segment sales were positively affected by a 3.0% increase in volumes sold, from approximately 8.9 million barrels in the year ended December 31, 2005 to 9.2 million barrels in the year ended December 31, 2006 due to increased sales volumes for lubricating oils and solvents, partially offset by decreased sales volume of fuels.

Fuel products segment sales for the year ended December 31, 2006 increased \$142.0 million, or 24.2%, partially due to an 11.1% increase in the average selling price per barrel. Average selling prices per barrel for gasoline, diesel, jet fuel, and by-products increased at rates comparable to or less than the overall 15.2% increase in the cost of crude oil per barrel for the period due to market conditions. The fuel products segment sales were also

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positively affected by an 11.8% increase in volumes sold attributable to the ramp-up of the fuels operations at the Shreveport refinery in the first quarter of 2005. The settlement of our fuel products cash flow hedges had an immaterial impact on fuel products segment sales for the year ended December 31, 2006.

Gross Profit. Gross profit increased \$62.9 million, or 44.8%, to \$203.2 million for the year ended December 31, 2006 from \$140.4 million for the year ended December 31, 2005. Gross profit for our specialty and fuel products segments were as follows:

	Calumet	Predecessor	
	Year Ended December 31,		
	2006	2005	%
	(Dollars in millions)		
			Change
Gross profit by segment:			
Specialty products	\$ 152.3	\$ 73.3	107.9%
Percentage of sales	16.7%	10.4%	
Fuel products	\$ 50.9	\$ 67.1	(24.1)%
Percentage of sales	7.0%	11.5%	
Total gross profit	\$ 203.2	\$ 140.4	44.8%
Percentage of sales	12.4%	10.9%	

This \$62.9 million increase in total gross profit includes an increase in gross profit of \$79.1 million in the specialty products segment offset by a \$16.2 million decrease in the fuel products segment.

The increase in the specialty products segment gross profit was primarily due the average selling price per barrel increasing by 26.1%, which was more than the increase in the average cost of crude oil of 15.6% during the period. This was primarily driven by price increases across all product lines and a more favorable product mix of lubricating oils and solvents. Specialty products segment gross profit was also positively affected by 3.0% increase in sales volumes, primarily driven by solvents and waxes. The sales price and volume increases were partially offset by the recognition of \$9.4 million of derivative losses on our cash flow hedges of crude oil and natural gas purchases reflected in cost of sales in the consolidated statements of operations. The segment gross profit was also positively affected by lower operating costs due to lower costs for plant fuel and maintenance.

The decrease in the fuel products segment gross profit of \$16.2 million was primarily the result of the average selling price increasing by 11.1%, which was less than the increase in the average cost of crude of 15.2%. Fuel products segment gross profit was also negatively impacted by approximately \$13.4 million due primarily to increases in other material costs from the use of certain gasoline blendstocks in the third and fourth quarter of 2006 to maintain compliance with environmental regulations. The Company does not believe it will be necessary to purchase such gasoline blendstocks in 2007. Further contributing to the decrease in segment gross profit was the recognition of \$1.7 million of derivative losses from our cash flow hedges of fuel products sales and crude oil purchases. These decreases were partially offset by an 11.8% increase in sales volumes, primarily in gasoline and jet fuel.

Selling, general and administrative. Selling, general and administrative expenses decreased \$1.7 million, or 7.7%, to \$20.4 million in the year ended December 31, 2006 from \$22.1 million in the year ended December 31, 2005. This decrease primarily reflects decreased employee compensation costs due to incentive bonuses. This decrease was offset by increased general and administrative costs incurred as a result of being a public company.

Transportation. Transportation expenses increased \$10.1 million, or 21.5%, to \$56.9 million in the year ended December 31, 2006 from \$46.8 million in the year ended December 31, 2005. The increase in transportation expense over the period is due to significant price increases for rail transportation services as well as the 3.0% increase in volumes for the specialty products segment for the year ended December 31, 2006 compared to the same period in 2005.

Restructuring, decommissioning and asset impairments. Restructuring, decommissioning and asset impairment expenses were \$2.3 for the year ended December 31, 2005, and we incurred no such expenses in 2006. The charges recorded in 2005 related to decommissioning and asset impairment costs of the Reno wax packaging assets. No other assets impairments have occurred in 2006.

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Interest expense. Interest expense decreased \$13.9 million, or 60.7%, to \$9.0 million in the year ended December 31, 2006 from \$23.0 million in the year ended December 31, 2005. This decrease was primarily due to the debt refinancing in December 2005 and the repayment of debt with the proceeds of the initial public offering and follow-on equity offering, which closed on January 31, 2006 and July 5, 2006, respectively.

Interest income. Interest income increased \$2.7 million to \$3.0 million in the year ended December 31, 2006 from \$0.2 million in the year ended December 31, 2005. This increase was primarily due to the investment of the remaining proceeds from our follow-on equity offering, which closed on July 5, 2006, after the pay down of indebtedness. The Predecessor did not have significant cash or cash equivalent balances during 2005.

Debt extinguishment costs. Debt extinguishment costs decreased to \$3.0 million for the year ended December 31, 2006 compared to \$6.9 million for the year ended December 31, 2005. The \$6.9 million recognized in the year ended December 31, 2005 is the result of the repayment of existing credit facilities in the fourth quarter of 2005 using the proceeds of credit agreements entered into in that same period. For the year ended December 31, 2006, the debt extinguishment costs of \$3.0 million resulted from the repayment of a portion of borrowings under Calumet's term loan and revolving credit facilities using the proceeds of the initial public offering, which closed on January 31, 2006.

Realized gain (loss) on derivative instruments. Realized loss on derivative instruments increased \$33.1 million to a \$30.3 million loss in the year ended December 31, 2006 from a \$2.8 million gain in the year ended December 31, 2005. This increased loss primarily was the result of the unfavorable settlement of crude oil and fuel products margin derivative contracts, which experienced decreases in market value due to rising crack spreads upon their settlement during the year ended December 31, 2006 as compared to 2005.

Unrealized gain (loss) on derivative instruments. Unrealized gain (loss) on derivative instruments increased \$39.9 million, to a \$12.3 million gain in the year ended December 31, 2006 from a \$27.6 million loss for the year ended December 31, 2005. This increase is primarily due to the entire mark to market change of our derivative instruments being recorded to unrealized loss on derivative instruments in the prior year. Calumet designated certain of these derivatives as cash flow hedges on April 1, 2006 and has subsequently recorded the mark to market change on the effective portion of these hedges to accumulated other comprehensive income on the consolidated balance sheet.

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Sales. Sales increased \$749.5 million, or 138.9%, to \$1,289.1 million in the year ended December 31, 2005 from \$539.6 million in the year ended December 31, 2004. Sales for each of our principal product categories in these periods were as follows:

	Calumet 2005	Predecessor Year Ended December 31, 2004	% Change
	(Dollars in millions)		
Sales by segment:			
Specialty products:			
Lubricating oils	\$ 394.4	\$ 251.9	56.6%
Solvents	145.0	114.7	26.4%
Waxes	43.6	39.5	10.4%
Fuels(1)	44.0	72.7	(39.5)%
Asphalt and by-products(2)	76.3	51.2	48.8%
 Total specialty products	 703.3	 530.0	 32.7%
 Total specialty products volume (in barrels)	 8,900,000	 8,807,000	 1.1%
Fuel products:			
Gasoline	\$ 223.6	\$	
Diesel	230.9	3.3	6,885.7%
Jet fuel	121.3		
By-products(3)	10.0	6.3	59.0%
 Total fuel products	 585.8	 \$ 9.6	 5,998.2%
 Total fuel products sales volumes (in barrels)	 8,238,000	 193,000	 4,168.4%
Total sales	\$ 1,289.1	\$ 539.6	138.9%
 Total sales volumes (in barrels)	 17,138,000	 9,000,000	 90.4%

(1) Represents fuels produced in connection with the production of specialty products at the Princeton and Cotton Valley refineries.

(2) Represents asphalt and other by-products produced in connection with the production of specialty products at the Princeton, Cotton Valley and Shreveport refineries.

(3) Represents by-products produced in connection with the production of fuels at the Shreveport refinery.

This \$749.5 million increase in sales resulted primarily from the startup of our fuels operations at Shreveport in the fourth quarter of 2004, which accounted for \$576.2 million of the increase, and also from a \$173.3 million increase in sales by our specialty products segment.

Specialty products segment sales for 2005 increased \$173.3 million, or 32.7%, due to a 31.3% increase in the average selling price per barrel and a 1.1% increase in volumes sold, from approximately 8.8 million barrels in 2004 to 8.9 million barrels in 2005. Average selling prices per barrel for lubricating oils, solvents and fuels increased at rates comparable to or in excess of the overall 30.9% increase in the cost of crude oil per barrel during the period. Asphalt and by-product prices per barrel increased by only 7.4% due to market conditions. The slight increase in volumes sold was largely due to higher production volumes offset by downtime in February 2005 at Cotton Valley for a plant expansion project, which resulted in reduced volumes of fuels and solvents for that period. Fuel sales decreased disproportionately more than solvents because we had higher levels of inventory of solvents at Cotton Valley available for sale.

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Fuel products segment sales for 2005 increased \$576.2 million which is attributable to the reconfiguration of the Shreveport refinery, which was fully completed by February 2005, and the start-up of our fuel products segment in the fourth quarter of 2004.

Gross Profit. Gross profit increased \$102.0 million, or 266.2%, to \$140.4 million for the year ended December 31, 2005 from \$38.3 million for year ended December 31, 2004. Gross profit for our specialty and fuel products segments were as follows:

	Calumet 2005	Predecessor Year Ended December 31, 2004	% Change
	(Dollars in millions)		
Gross profit by segment:			
Specialty products	\$ 73.3	\$ 40.6	80.5%
Percentage of sales	10.4%	7.7%	
Fuel products	\$ 67.1	\$ (2.3)	
Percentage of sales	11.5%	(24.1)%	
Total gross profit	\$ 140.4	\$ 38.3	266.2%
Percentage of sales	10.9%	7.1%	

This \$102.0 million increase in total gross profit includes an increase in gross profit of \$69.4 million in our fuel products segment, which began operations late in 2004, and an increase of \$32.7 million in our specialty product segment gross profit which was driven by a 31.3% increase in selling prices and improved profitability on specialty products manufactured at our Shreveport refinery due to the increase in the refinery's overall throughput largely resulting from its reconfiguration. The increase in specialty products gross profit was offset by a 30.9% increase in the average price of crude oil per barrel. During 2005, we were able to successfully increase prices on our lubricating oils, solvents and fuels at rates comparable to or in excess of the rising cost of crude oil.

Selling, general and administrative. Selling, general and administrative expenses increased \$9.0 million, or 68.5%, to \$22.1 million in the year ended December 31, 2005 from \$13.1 million in the year ended December 31, 2004. This increase primarily reflects increased employee compensation costs due to incentive bonuses.

Transportation. Transportation expenses increased \$12.9 million, or 38.1%, to \$46.8 million in the year ended December 31, 2005 from \$33.9 million in the year ended December 31, 2004. The year over year increase in transportation expense was due to the overall increase in volumes which was partially offset by more localized marketing of fuels products.

Restructuring, decommissioning and asset impairments. Restructuring, decommissioning and asset impairment expenses increased \$2.0 million to \$2.3 million in the year ended December 31, 2005 from \$0.3 million in the year ended December 31, 2004. During 2005, we recorded a \$2.2 million charge related to decommissioning and asset impairment costs of the Reno wax packaging assets. During 2004, we recorded a \$0.3 million charge related to the completion of the Rouseville asset decommissioning.

Interest expense. Interest expense increased \$13.1 million, or 132.7%, to \$23.0 million in the year ended December 31, 2005 from \$9.9 million in the year ended December 31, 2004. This increase was primarily due to our debt refinancing and increased borrowings under our prior credit agreements for the reconfiguration of the Shreveport

facility entered into during the fourth quarter of 2004. Borrowings under the prior term loan agreement incurred interest at a fixed rate of interest of 14.0%.

On December 9, 2005, we repaid our existing facilities from the proceeds of our current credit agreements described later in this section. This resulted in debt extinguishment costs of \$6.9 million being recorded in the fourth quarter.

Realized gain on derivative instruments. Realized gain on derivative instruments decreased \$36.3 million to \$2.8 million in the year ended December 31, 2005 from \$39.2 million in the year ended December 31, 2004. This decrease was primarily the result of the unfavorable settlement of crude oil and fuel products margin derivative

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contracts, which experienced decreases in market value upon settlement during the year ended December 31, 2005 as compared to 2004.

Unrealized loss on derivative instruments. Unrealized loss on derivative instruments increased \$19.8 million, to \$27.6 million in the year ended December 31, 2005 from \$7.8 million for the year ended December 31, 2004. This increased loss is primarily due to the decline in fair value on a larger volume of crude oil and fuel products margin derivative contracts due to increased crack spreads as of December 31, 2005.

Liquidity and Capital Resources

Our principal sources of cash have included proceeds from public offerings, issuance of private debt, bank borrowings, and cash flow from operations. Principal historical uses of cash have included capital expenditures, growth in working capital, distributions and debt service. We expect that our principal uses of cash in the future will be to finance working capital, capital expenditures, distributions and debt service.

Cash Flows

We believe that we have sufficient liquid assets, cash flow from operations and borrowing capacity to meet our financial commitments, debt service obligations, contingencies and anticipated capital expenditures. However, we are subject to business and operational risks that could materially adversely affect our cash flows. A material decrease in our cash flow from operations would likely produce a corollary materially adverse effect on our borrowing capacity.

The following table summarizes our primary sources and uses of cash in the periods presented:

	Calumet	Predecessor	
	Year Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Net cash provided by (used in) operating activities	\$ 166.8	\$ (34.0)	\$ (0.6)
Net cash used in investing activities	\$ (75.8)	\$ (12.9)	\$ (42.9)
Net cash provided by (used in) financing activities	\$ (22.2)	\$ 41.0	\$ 61.6

Operating Activities. Operating activities provided \$166.8 million in cash during the year ended December 31, 2006 compared to using \$34.0 million in cash during the year ended December 31, 2005. The cash provided by operating activities during the year ended December 31, 2006 primarily consisted of net income after adjusting for non-cash items of \$108.9 million and \$57.8 million of working capital improvements. Net income after adjustments for non-cash items increased to \$108.9 million in 2006 from \$28.1 million in 2005 primarily due to an increase in net income of \$82.6 million. The improvements in working capital were primarily due to a \$34.0 million increase in accounts payable due to improvements in payment terms with suppliers and the issuance of letters of credit, a \$29.7 million decrease in current assets primarily due to lower accounts receivable as a result of decreased sales volume in the fourth quarter of 2006 as compared to the same period in 2005 and lower prepaid expenses driven by decreased prepaid crude oil purchases.

Operating activities used \$34.0 million of cash for the year ended December 31, 2005 compared to using \$0.6 million of cash for the year ended December 31, 2004. This increase is primarily due to increases in accounts receivable of \$56.9 million and inventory of \$25.4 million, which relate to the rising price of crude oil and the increase in throughput in our fuel products segment as the Shreveport reconfiguration was completed in February 2005. The

increase was also driven by the decrease in accounts payable which relates to the timing of payments and the increase in purchases from suppliers who required shorter payment terms. The increase was partially offset by the mark to market impact of derivative instruments.

Investing Activities. Cash used in investing activities increased to \$75.8 million during the year ended December 31, 2006 as compared to \$12.9 million during the year ended December 31, 2005. This increase was primarily due to the \$65.5 million of additions to property, plant and equipment related to the Shreveport refinery expansion project during 2006, with no comparable expenditures in 2005. In 2005, capital expenditures primarily consisted of an upgrade to the capacity and enhancement of the product mix at our Cotton Valley refinery.

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In 2004, capital expenditures were primarily due to \$36.0 million of additions related to the fuels reconfiguration at our Shreveport refinery.

Financing Activities. Financing activities used cash of \$22.2 million for the year ended December 31, 2006 compared to providing \$41.0 million for the year ended December 31, 2005. This decrease is primarily due to the use of cash from operations to make distributions to partners of \$45.2 million. In addition, we used all of the proceeds of our initial public offering and a portion of the proceeds of our follow-on public offering to paydown debt during the year ended December 31, 2006. The remaining proceeds from our follow-on public offering were invested in highly liquid short-term investments and will be utilized as needed to fund the Shreveport refinery expansion project.

Cash provided by financing activities decreased to \$41.0 million for the year ended December 31, 2005 compared to \$61.6 million for the year ended December 31, 2004. This decrease is primarily due to distributions to our partners of \$7.3 million and increased borrowings in 2004 to finance the growth in working capital related to the startup of fuel products operations at Shreveport.

On January 5, 2007, the Company declared a quarterly cash distribution of \$0.60 per unit on all outstanding units, or \$18.7 million, for the quarter ended December 31, 2006. The distribution will be paid on February 14, 2007 to unitholders of record as of the close of business on February 4, 2007. This quarterly distribution of \$0.60 per unit equates to \$2.40 per unit, or \$74.7 million, on an annualized basis.

Capital Expenditures

Our capital expenditure requirements consist of capital improvement expenditures, replacement capital expenditures and environmental capital expenditures. Capital improvement expenditures include expenditures to acquire assets to grow our business and to expand existing facilities, such as projects that increase operating capacity. Replacement capital expenditures replace worn out or obsolete equipment or parts. Environmental capital expenditures include asset additions to meet or exceed environmental and operating regulations. We expense all maintenance costs associated with major maintenance and repairs (facility turnarounds) through the accrue-in-advance method over the period between turnarounds. The accounting method used for facility turnarounds will change effective January 1, 2007 as discussed below in [Recent Accounting Pronouncements](#).

The following table sets forth our capital improvement expenditures, replacement capital expenditures and environmental expenditures.

	Calumet 2006	Predecessor Year Ended December 31, 2005	2004
	(Dollars in millions)		
Capital improvement expenditures	\$ 69.9	\$ 10.1	\$ 39.0
Replacement capital expenditures	\$ 4.5	\$ 2.2	2.6
Environmental expenditures	\$ 1.7	\$ 0.7	1.4
Total	\$ 76.1	\$ 13.0	\$ 43.0

We anticipate that future capital improvement requirements will be provided through long-term borrowings, other debt financings, equity offerings and/or cash on hand. Until the Shreveport refinery expansion project is complete and increases cash flow from operations per unit, as discussed in Item 1A Risk Factors, our ability to raise additional capital through the sale of common units is limited to 3,233,000 common units.

Capital improvement expenditures for the year ended December 31, 2006 were primarily related to an expansion project at our Shreveport refinery to increase its throughput capacity and its production of specialty products. The expansion project involves several of the refinery's operating units and is estimated to result in a crude oil throughput capacity increase of approximately 15,000 bpd, bringing total crude oil throughput capacity of the refinery to approximately 57,000 bpd. The expansion is expected to be completed and fully operational in the third quarter of 2007.

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As part of the Shreveport refinery expansion project, we plan to increase the Shreveport refinery's capacity to process an additional 8,000 bpd of sour crude oil, bringing total capacity to process sour crude oil to 13,000 bpd. Of the anticipated 57,000 bpd throughput rate upon completion of the expansion project, we expect the refinery to have the capacity to process approximately 42,000 bpd of sweet crude oil and 13,000 bpd of sour crude oil, with the remainder coming from interplant feedstocks.

During the second quarter of 2006, we began purchasing equipment for the Shreveport expansion project and have spent a total of \$65.5 million on capital expenditures for the expansion through December 31, 2006, of which approximately \$13.0 million relates to assets and services yet to be received. In July 2006 we completed a follow-on public offering of 3.3 million common units raising \$103.5 million to fund the majority of this project. On December 27, 2006, the LDEQ approved our application for a modification of our air emissions permit for the Shreveport refinery expansion. We were required to obtain approval of this modified air emissions permit from the LDEQ prior to commencing construction of the expansion activities. Upon receipt of the permit approval from the LDEQ, we have commenced construction of the Shreveport refinery expansion project. On February 22, 2007, we received notice that on February 13, 2007 an individual filed, on behalf of the Residents for Air Neutralization, a Petition for Review in the 19th Judicial District Court for East Baton Rouge Parish, Louisiana, asking the Court to review the approval granted by the LDEQ for our application for a modified air emissions permit. The Petition alleges the information in the final LDEQ decision report was inaccurate and that, based on the LDEQ's decision to grant the modified air emissions permit, the LDEQ had not reviewed the evidence put before them properly. There is a question, unresolved at this time, concerning whether the Petition was timely filed. If it was timely filed, the LDEQ will have sixty days after service of the Petition to file the record of its proceedings with the district court. We believe that the LDEQ will be successful in defending its approval of our application for a modified air emissions permit. Neither we nor any of our subsidiaries is named at this time as a party to the Petition.

Management estimates that Calumet will incur approximately \$84.5 million of capital expenditures in calendar year 2007 on the expansion project. We currently estimate the total cost of the Shreveport refinery expansion project will be approximately \$150.0 million. Cash on hand from the follow-on offering, cash flow from operations and borrowings under the secured revolving credit facility, to the extent necessary, will fund these expenditures.

Debt and Credit Facilities

On December 9, 2005, we repaid all of our existing indebtedness under our prior credit facilities and entered into new credit agreements with syndicates of financial institutions for credit facilities that consist of:

a \$225.0 million senior secured revolving credit facility, with a standby letter of credit sublimit of \$200.0 million; and

a \$225.0 million senior secured first lien credit facility consisting of a \$175.0 million term loan facility and a \$50.0 million letter of credit facility to support crack spread hedging.

The revolving credit facility borrowings are limited by advance rates of percentages of eligible accounts receivable and inventory (the borrowing base) as defined by the revolving credit agreement. At December 31, 2006 we had borrowings of \$49.5 million under our term loan and no borrowings under our revolving credit facility. Our letters of credit outstanding as of December 31, 2006 were \$42.8 million under the revolving credit facility and \$50.0 million under the \$50.0 million letter of credit facility to support crack spread hedging.

The secured revolving credit facility currently bears interest at prime or LIBOR plus 150 basis points (which basis point margin may fluctuate), has a first priority lien on our cash, accounts receivable and inventory and a second

priority lien on our fixed assets and matures in December 2010. On December 31, 2006, we had availability on our revolving credit facility of \$136.0 million, based upon its \$178.8 million borrowing base, \$42.8 million in outstanding letters of credit, and no outstanding borrowings.

The term loan facility bears interest at a rate of LIBOR plus 350 basis points and the letter of credit facility to support crack spread hedging bears interest at a rate of 3.5%. Each facility has a first priority lien on our fixed assets and a second priority lien on our cash, accounts receivable and inventory and matures in December 2012. Under the terms of our term loan facility, we applied a portion of the net proceeds we received from our initial public offering

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and the underwriters' over-allotment option as a repayment of the term loan facility, and are required to make mandatory repayments of approximately \$0.1 million at the end of each fiscal quarter, beginning with the fiscal quarter ended March 31, 2006 and ending with the fiscal quarter ending December 31, 2011. At the end of each fiscal quarter in 2012 we are required to make mandatory repayments of approximately \$11.8 million per quarter, with the remainder of the principal due at maturity. On April 24, 2006, the Company entered into an interest rate swap agreement with a counterparty to fix the LIBOR component of the interest rate on a portion of outstanding borrowings under its term loan facility. The notional amount of the interest rate swap agreement is 85% of the outstanding term loan balance over its remaining term, with LIBOR fixed at 5.44%.

Our letter of credit facility to support crack spread hedging is secured by a first priority lien on our fixed assets. We have issued a letter of credit in the amount of \$50.0 million, the full amount available under the letter of credit facility, to one counterparty. As long as this first priority lien is in effect and such counterparty remains the beneficiary of the \$50.0 million letter of credit, we will have no obligation to post additional cash, letters of credit or other collateral with such counterparty to provide additional credit support for a mutually-agreed maximum volume of executed crack spread hedges. In the event such counterparty's exposure exceeds \$100.0 million, we would be required to post additional credit support to enter into additional crack spread hedges up to the aforementioned maximum volume. In addition, we have other crack spread hedges in place with other approved counterparties under the letter of credit facility whose credit exposure to us is also secured by a first priority lien on our fixed assets.

The credit facilities permit us to make distributions to our unitholders as long as we are not in default or would not be in default following the distribution. Under the credit facilities, we are obligated to comply with certain financial covenants requiring us to maintain a Consolidated Leverage Ratio of no more than 3.75 to 1 (as of the end of each fiscal quarter and after giving effect to a proposed distribution) and available liquidity of at least \$30.0 million (after giving effect to a proposed distribution). The Consolidated Leverage Ratio is defined under our credit agreements to mean the ratio of our consolidated debt (as defined in the credit agreements) as of the last day of any fiscal quarter to our Adjusted EBITDA (as defined below) for the four fiscal quarter period ending on such date. Available liquidity is a measure used under our credit agreements to mean the sum of the cash and borrowing capacity under our revolving credit facility that we have as of a given date. Adjusted EBITDA means Consolidated EBITDA as defined in our credit facilities to mean, for any period: (1) net income plus (2)(a) interest expense; (b) taxes; (c) depreciation and amortization; (d) unrealized losses from mark to market accounting for hedging activities; (e) unrealized items decreasing net income (including the non-cash impact of restructuring, decommissioning and asset impairments in the periods presented); and (f) other non-recurring expenses reducing net income which do not represent a cash item for such period; minus (3)(a) tax credits; (b) unrealized items increasing net income (including the non-cash impact of restructuring, decommissioning and asset impairments in the periods presented); (c) unrealized gains from mark to market accounting for hedging activities; and (d) other non-recurring expenses and unrealized items that reduced net income for a prior period, but represent a cash item in the current period.

In addition, at any time that our borrowing capacity under our revolving credit facility falls below \$25.0 million, we must maintain a Fixed Charge Coverage Ratio of at least 1 to 1 (as of the end of each fiscal quarter). The Fixed Charge Coverage Ratio is defined under our credit agreements to mean the ratio of (a) Adjusted EBITDA minus Consolidated Capital Expenditures minus Consolidated Cash Taxes, to (b) Fixed Charges (as each such term is defined in our credit agreements). We anticipate that we will continue to be in compliance with the financial covenants contained in our credit facilities and will, therefore, be able to make distributions to our unitholders.

In addition, our credit agreements contain various covenants that limit, among other things, our ability to: incur indebtedness; grant liens; make certain acquisitions and investments; make capital expenditures above specified amounts; redeem or prepay other debt or make other restricted payments such as distributions to unitholders; enter into transactions with affiliates; enter into a merger, consolidation or sale of assets; and cease our refining margin hedging program (our lenders have required us to obtain and maintain derivative contracts for fuel products margins in

our fuel products segment for a rolling two-year period for at least 40%, and no more than 80%, of our anticipated fuels production). On June 19 and 22, 2006, the Company amended its credit agreements to increase the amount of permitted capital expenditures with respect to the Shreveport refinery expansion project as well as annual capital expenditure limitations.

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If an event of default exists under our credit agreements, the lenders will be able to accelerate the maturity of the credit facilities and exercise other rights and remedies. An event of default is defined as nonpayment of principal interest, fees or other amounts; failure of any representation or warranty to be true and correct when made or confirmed; failure to perform or observe covenants in the credit agreement or other loan documents, subject to certain grace periods; payment defaults in respect of other indebtedness; cross-defaults in other indebtedness if the effect of such default is to cause the acceleration of such indebtedness under any material agreement if such default could have a material adverse effect on us; bankruptcy or insolvency events; monetary judgment defaults; asserted invalidity of the loan documentation; and a change of control in us. As of December 31, 2006, we believe we are in compliance with all debt covenants and has adequate liquidity to conduct its business.

Equity Transactions

On January 31, 2006, we completed the initial public offering of our common units and sold 5,699,900 of those units to the underwriters of the initial public offering at a price to the public of \$21.50 per common unit. We also sold a total of 750,100 common units to certain other investors at a price of \$19.995 per common unit. In addition, on February 8, 2006, we sold an additional 854,985 common units to the underwriters at a price to the public of \$21.50 per common unit pursuant to the underwriters' over-allotment option. We received total net proceeds of approximately \$144.4 million. The net proceeds were used to: (i) repay indebtedness and accrued interest under the first lien term loan facility in the amount of approximately \$125.7 million, (ii) repay indebtedness under the secured revolving credit facility in the amount of approximately \$13.1 million and (iii) pay transaction fees and expenses in the amount of approximately \$5.6 million.

On July 5, 2006, we completed a follow-on public offering of common units in which we sold 3,300,000 common units to the underwriters of this offering at a price to the public of \$32.94 per common unit and received net proceeds of \$103.5 million. The net proceeds were used (or will be used) to: (i) repay all of our borrowings under our revolving credit facility, which were approximately \$9.2 million as of June 30, 2006, (ii) fund the future construction and other start-up costs of the planned expansion project at our Shreveport refinery and (iii) to the extent available, for general partnership purposes. The general partner contributed an additional \$2.2 million to us to retain its 2% general partner interest.

Contractual Obligations and Commercial Commitments

A summary of our total contractual cash obligations as of December 31, 2006, is as follows:

	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years (Thousands)	3-5 Years	More Than 5 Years
Long-term debt obligations	\$ 49,500	\$ 500	\$ 1,000	\$ 48,000	\$
Operating lease obligations(1)	34,407	8,837	11,184	7,942	6,444
Letters of credit(2)	92,775	42,775		50,000	
Purchase commitments(3)	301,302	263,317	37,985		
Employment agreements(4)	1,360	333	666	361	
Total obligations	\$ 479,344	\$ 315,762	\$ 50,835	\$ 106,303	\$ 6,444

- (1) We have various operating leases for the use of land, storage tanks, pressure stations, railcars, equipment, precious metals and office facilities that extend through August 2015.
- (2) Letters of credit supporting crude oil purchases and hedging activities.
- (3) Purchase commitments consist of obligations to purchase fixed volumes of crude oil from various suppliers based on current market prices at the time of delivery.
- (4) Annual compensation under the employment agreement of F. William Grube, chief executive officer and president.

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Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations and financial condition are based upon our consolidated financial statements for the years ended December 31, 2006, 2005 and 2004. These consolidated financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in those financial statements. On an ongoing basis, we evaluate estimates and base our estimates on historical experience and assumptions believed to be reasonable under the circumstances. Those estimates form the basis for our judgments that affect the amounts reported in the financial statements. Actual results could differ from our estimates under different assumptions or conditions. Our significant accounting policies, which may be affected by our estimates and assumptions, are more fully described in Note 2 to our consolidated financial statements in Item 8 Financial Statements of this Annual Report on Form 10-K. We believe that the following are the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

Revenue Recognition

We recognize revenue on orders received from our customers when there is persuasive evidence of an arrangement with the customer that is supportive of revenue recognition, the customer has made a fixed commitment to purchase the product for a fixed or determinable sales price, collection is reasonably assured under our normal billing and credit terms, and ownership and all risks of loss have been transferred to the buyer, which is upon shipment to the customer.

Turnaround

Periodic major maintenance and repairs (turnaround costs) applicable to refining facilities are accounted for using the accrue-in-advance method. Accruals are based upon management's estimate of the nature and extent of maintenance and repair necessary for each facility. Actual expenditures could vary significantly from management's estimates as the scope of a turnaround may significantly change once the actual maintenance has commenced. In accordance with FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, the accounting method used for facility turnarounds will change beginning January 1, 2007 as discussed in Note 2 to the consolidated financial statements.

Inventory

The cost of inventories is determined using the last-in, first-out (LIFO) method. Costs include crude oil and other feedstocks, labor and refining overhead costs. We review our inventory balances quarterly for excess inventory levels or obsolete products and write down, if necessary, the inventory to net realizable value. The replacement cost of our inventory, based on current market values, would have been \$46.7 million and \$47.8 million higher at December 31, 2006 and 2005, respectively.

Derivatives

We utilize derivative instruments to minimize our 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. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which was amended in June 2000 by SFAS No. 138 and in May 2003 by SFAS No. 149 (collectively referred to as SFAS 133), we recognize all derivative transactions as either assets or liabilities at fair value on the consolidated balance sheets. To the extent designated as an effective cash flow hedge of an exposure to future changes in the value of a purchase or sale transaction, the change in fair value of the derivative is deferred in accumulated other comprehensive income

until the forecasted transaction being hedged is recognized in the consolidated statements of operations. Cash flow hedges of purchases and sales are recorded in cost of goods sold and sales, respectively, in the consolidated statements of operations. The realized gain or loss upon the settlement of a cash flow hedge of interest payments is recorded to interest expense in the consolidated statement of operations. 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 or loss on derivative

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instruments in the consolidated statement 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 or loss on derivative instruments in the consolidated statement of operations. The company utilizes third party valuations and published market data to determine the fair value of these derivatives.

The effective portion of the hedges classified in accumulated other comprehensive income related to these natural gas, crude oil, interest and fuel products derivative contracts at December 31, 2006 is \$52.3 million and, absent a change in their fair market value, will be reclassified to earnings by December 31, 2012 with balances expected to be recognized as follows:

Year	Other Comprehensive Income (Loss) (Thousands)
2007	\$ 13,803
2008	15,321
2009	12,618
2010	10,702
2011	(59)
2012	(134)
Total	\$ 52,251

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (the Interpretation), an interpretation of FASB Statement No. 109. The Interpretation clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position to be taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006. This Interpretation will not have a material effect on the financial position, results of operations or cash flows when adopted on January 1, 2007.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, which amends certain provisions in the AICPA Industry Audit Guides, *Audits of Airlines*, and APB Opinion No. 28, *Interim Financial Reporting* (the Position). The Position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities and requires the use of the direct expensing method, built-in overhaul method, or deferral method. The Position is effective for fiscal years beginning after December 15, 2006.

Effective January 1, 2007, we will adopt the Position and elect the deferral method. Under this method, actual costs of an overhaul are capitalized and amortized to cost of sales until the next overhaul date. Prior to the adoption of this standard, we accrued for such overhaul costs in advance of the turnarounds and recorded the expense to cost of sales. The adoption of the position in prior periods would have resulted in a decrease (increase) in turnaround costs, a component of cost of sales, of \$1.7 million, \$1.6 million and \$(0.7) million for the years ended December 31, 2006, 2005 and 2004, respectively. Furthermore, the adoption will result in the capitalization of turnaround costs of

\$1.5 million and \$2.2 million as of December 31, 2006 and 2005, respectively, as compared to turnaround liabilities previously recorded of \$5.1 million and \$2.7 million for the same dates.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements* (the Statement). The Statement applies to assets and liabilities required or permitted to be measured at fair value under other accounting pronouncements. The Statement defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value, but does not provide guidance whether assets and liabilities are required or permitted to be measured at fair value. The Statement is effective for fiscal years beginning after November 15, 2007. The Company does not anticipate that this Statement will have a material effect on its financial position, results of operations or cash flows.

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Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

Our profitability and cash flows are affected by changes in interest rates, specifically LIBOR and prime rates. The primary purpose of our interest rate risk management activities is to hedge our exposure to changes in interest rates.

We are exposed to market risk from fluctuations in interest rates. As of December 31, 2006, we had approximately \$49.5 million of variable rate debt. Holding other variables constant (such as debt levels) a one hundred basis point change in interest rates on our variable rate debt as of December 31, 2006 would be expected to have an impact on net income and cash flows for 2006 of approximately \$0.5 million.

The Company has entered into a forward swap contract to manage interest rate risk related to its variable priced term loan. The Company has hedged 85% of its future interest payments related to this term loan indebtedness. The Company has a \$225.0 million revolving credit facility, bearing interest at the prime rate or LIBOR, at its option. No borrowings were outstanding under this facility as of December 31, 2006.

Commodity Price Risk

Both our profitability and our cash flows are affected by volatility in prevailing crude oil, gasoline, diesel, jet fuel, and natural gas prices. The primary purpose of our commodity risk management activities is to hedge our exposure to price risks associated with the cost of crude oil and natural gas and sales prices of our fuel products.

Crude Oil Price Volatility

We are exposed to significant fluctuations in the price of crude oil, our principal raw material. Given the historical volatility of crude oil prices, this exposure can significantly impact product costs and gross profit. Holding all other variables constant, and excluding the impact of our current hedges, we expect a \$1.00 change in the per barrel price of crude oil would change our specialty product segment cost of sales by \$9.2 million and our fuel product segment cost of sales by \$9.2 million based on our results for the year ended December 31, 2006.

Crude Oil Hedging Policy

Because we typically do not set prices for our specialty products in advance of our crude oil purchases, we can take into account the cost of crude oil in setting prices. We further manage our exposure to fluctuations in crude oil prices in our specialty products segment through the use of derivative instruments. Our policy is generally to enter into crude oil contracts for three to nine months forward and for 50% to 70% of our anticipated crude oil purchases related to our specialty products production. Our fuel products sales are based on market prices at the time of sale. Accordingly, in conjunction with our fuel products hedging policy discussed below, we enter into crude oil derivative contracts for up to five years and no more than 75% of our fuel products sales on average for each fiscal year.

Natural Gas Price Volatility

Since natural gas purchases comprise a significant component of our cost of sales, changes in the price of natural gas also significantly affect our profitability and our cash flows. Holding all other cost and revenue variables constant, and excluding the impact of our current hedges, we expect a \$0.50 change per MMBtu (one million British Thermal Units) in the price of natural gas would change our cost of sales by \$2.5 million based on our results for the year ended

December 31, 2006.

Natural Gas Hedging Policy

In order to manage our exposure to natural gas prices, we enter into derivative contracts. Our policy is generally to enter into natural gas swap contracts during the summer months for approximately 50% of our anticipated natural gas requirements for the upcoming fall and winter months.

Table of Contents***Fuel Products Selling Price Volatility***

We are exposed to significant fluctuations in the prices of gasoline, diesel, and jet fuel. Given the historical volatility of gasoline, diesel, and jet fuel prices, this exposure can significantly impact sales and gross profit. Holding all other variables constant, and excluding the impact of our current hedges, we expect that a \$1 change in the per barrel selling price of gasoline, diesel, and jet fuel would change our forecasted fuel products segment sales by \$9.2 million based on our results for the year ended December 31, 2006.

Fuel Products Hedging Policy

In order to manage our exposure to changes in gasoline, diesel, and jet fuel selling prices, we enter into fuels product swap contracts. Our policy is to enter into derivative contracts to hedge our fuel products sales for a period no greater than five years forward and for no more than 75% of anticipated fuels sales on average for each fiscal year, which is consistent with our crude purchase hedging policy for our fuel products segment discussed above. We believe this policy lessens the volatility of our cash flows. In addition, in connection with our credit facilities, our lenders require us to obtain and maintain derivative contracts to hedge our fuels product margins for a rolling two-year period for at least 40%, and no more than 80%, of our anticipated fuels production.

The unrealized gain or loss on derivatives at a given point in time is not necessarily indicative of the results realized when such contracts mature. Please read *Derivatives* in Note 7 to our consolidated financial statements for a discussion of the accounting treatment for the various types of derivative transactions, and a further discussion of our hedging policies.

Existing Commodity Derivative Instruments

The following tables provide information about our derivative instruments related to our fuel products segment as of December 31, 2006:

Crude Oil Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
First Quarter 2007	1,710,000	19,000	65.14
Second Quarter 2007	1,728,000	18,989	64.68
Third Quarter 2007	1,742,000	18,935	65.51
Fourth Quarter 2007	1,742,000	18,935	65.51
Calendar Year 2008	8,143,000	22,249	67.37
Calendar Year 2009	7,482,500	20,500	66.04
Calendar Year 2010	5,840,000	16,000	67.40
Calendar Year 2011	363,500	996	65.99
Totals	28,751,000		
Average price			\$ 66.49

Diesel Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
First Quarter 2007	1,080,000	12,000	81.10
Second Quarter 2007	1,092,000	12,000	80.74

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Third Quarter 2007	1,102,000	11,978	81.36
Fourth Quarter 2007	1,102,000	11,978	81.36
Calendar Year 2008	4,941,000	13,500	82.18
Calendar Year 2009	4,562,500	12,500	80.50
Calendar Year 2010	3,650,000	10,000	80.52
Calendar Year 2011	273,000	748	76.52
Totals	17,802,500		
Average price			\$ 81.07

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Gasoline Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
First Quarter 2007	630,000	7,000	72.09
Second Quarter 2007	636,000	6,989	71.38
Third Quarter 2007	640,000	6,957	72.67
Fourth Quarter 2007	640,000	6,957	72.67
Calendar Year 2008	3,202,000	8,749	76.17
Calendar Year 2009	2,920,000	8,000	73.45
Calendar Year 2010	2,190,000	6,000	75.27
Calendar Year 2011	90,500	248	70.87
Totals	10,948,500		
Average price			\$ 74.30

The following table provides a summary of these derivatives and implied crack spreads for the crude oil, diesel and gasoline swaps disclosed above.

Swap Contracts by Expiration Dates	Barrels	BPD	Implied Crack Spread (\$/Bbl)
First Quarter 2007	1,710,000	19,000	12.64
Second Quarter 2007	1,728,000	18,989	12.62
Third Quarter 2007	1,742,000	18,935	12.66
Fourth Quarter 2007	1,742,000	18,935	12.66
Calendar Year 2008	8,143,000	22,249	12.45
Calendar Year 2009	7,482,500	20,500	11.71
Calendar Year 2010	5,840,000	16,000	11.15
Calendar Year 2011	363,500	996	9.13
Totals	28,751,000		
Average price			\$ 12.00

The following tables provide information about our derivative instruments related to our specialty products segment as of December 31, 2006:

Crude Oil Put/Call Spread Contracts by Expiration Dates	Barrels	BPD	Average Lower Put (\$/Bbl)	Average Upper Put (\$/Bbl)	Average Lower Call (\$/Bbl)	Average Upper Call (\$/Bbl)
January 2007	248,000	8,000	\$ 48.66	\$ 58.66	\$ 68.66	\$ 78.66
February 2007	224,000	8,000	49.28	59.28	69.28	79.28
March 2007	248,000	8,000	50.85	60.85	70.85	80.85

Totals	720,000				
Average price		\$ 49.61	\$ 59.61	\$ 69.61	\$ 79.61

Natural Gas Swap Contracts by Expiration Dates

	Mmbtu	\$/MMbtu
First Quarter 2007	600,000	\$ 8.87
Third Quarter 2007	100,000	\$ 7.99
Fourth Quarter 2007	150,000	\$ 7.99
First Quarter 2008	150,000	\$ 7.99
Totals	1,000,000	
Average price		\$ 8.52

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As of February 9, 2007, the Company has added the following derivative instruments to the above transactions for our fuel products segment:

Crude Oil Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
Calendar Year 2008	366,000	1,000	63.46
Calendar Year 2010	365,000	1,000	62.93
Calendar Year 2011	182,500	500	63.36
Totals	913,500		
Average price			\$ 63.23

Diesel Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
Calendar Year 2008	183,000	500	78.96
Calendar Year 2010	365,000	1,000	76.23
Calendar Year 2011	182,500	500	74.76
Totals	730,500		
Average price			\$ 76.55

Gasoline Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
Calendar Year 2008	183,000	500	70.56
Totals	183,000		
Average price			\$ 70.56

The following table provides a summary of these derivatives and implied crack spreads for the crude oil, diesel and gasoline swaps disclosed above.

Swap Contracts by Expiration Dates	Barrels	BPD	Implied Crack Spread (\$/Bbl)
Calendar Year 2008	366,000	1,000	11.30
Calendar Year 2010	365,000	1,000	13.30
Calendar Year 2011	182,500	500	11.40
Totals	913,500		
Average price			\$ 12.12

As of February 9, 2007, the Company has added the following derivative instruments to the above transactions for our specialty products segment:

Crude Oil Put/Call Spread Contracts by Expiration Dates	Barrels	BPD	Average Lower Put (\$/Bbl)	Average Upper Put (\$/Bbl)	Average Lower Call (\$/Bbl)	Average Upper Call (\$/Bbl)
April 2007	240,000	8,000	\$ 42.25	\$ 52.25	\$ 62.25	\$ 72.25
May 2007	124,000	4,000	45.38	55.38	65.38	75.38
Totals	364,000					
Average price			\$ 43.29	\$ 53.29	\$ 63.29	\$ 73.29

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Item 8. *Financial Statements*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors of Calumet GP, LLC
General Partner of Calumet Specialty Products Partners, L.P.

We have audited the accompanying consolidated balance sheets of Calumet Specialty Products Partners, L.P. as of December 31, 2006 and 2005 and the related consolidated statements of operations, partners' capital, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calumet Specialty Products Partners, L.P. at December 31, 2006 and 2005 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Indianapolis, Indiana
February 22, 2007

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****CONSOLIDATED BALANCE SHEETS**

	Calumet December 31, 2006	Predecessor December 31, 2005
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 80,955	\$ 12,173
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$782 and \$750, respectively	97,740	109,757
Other	1,260	5,537
	99,000	115,294
Inventories	110,985	108,431
Prepaid expenses	1,506	10,799
Derivative assets	40,802	3,359
Deposits and other current assets	1,961	8,851
Total current assets	335,209	258,907
Property, plant and equipment, net	191,732	127,846
Other noncurrent assets, net	3,233	12,964
Total assets	\$ 530,174	\$ 399,717
LIABILITIES AND PARTNERS CAPITAL		
Current liabilities:		
Accounts payable	\$ 78,752	\$ 44,759
Accrued salaries, wages and benefits	5,675	8,164
Turnaround costs	5,105	2,679
Taxes payable	7,038	4,209
Other current liabilities	2,424	2,418
Current portion of long-term debt	500	500
Derivative liabilities	2,995	30,449
Total current liabilities	102,489	93,178
Long-term debt, less current portion	49,000	267,485
Total liabilities	151,489	360,663
Commitments and contingencies		
Partners capital:		
Predecessor partners capital	\$	\$ 38,557

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Common unitholders (16,366,000 units issued and outstanding)	272,973	
Subordinated unitholders (13,066,000 units issued and outstanding)	40,802	
General partner's interest	12,659	
Accumulated other comprehensive income	52,251	497
Total partners' capital	378,685	39,054
Total liabilities and partners' capital	\$ 530,174	\$ 399,717

See accompanying notes to consolidated financial statements.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Calumet	Predecessor	
	Year Ended December 31,		
	2006	2005	2004
	(In thousands except per unit data)		
Sales	\$ 1,641,048	\$ 1,289,072	\$ 539,616
Cost of sales	1,437,804	1,148,715	501,284
Gross profit	203,244	140,357	38,332
Operating costs and expenses:			
Selling, general and administrative	20,430	22,126	13,133
Transportation	56,922	46,849	33,923
Taxes other than income taxes	3,592	2,493	2,309
Other	863	871	839
Restructuring, decommissioning and asset impairments		2,333	317
Operating income (loss)	121,437	65,685	(12,189)
Other income (expense):			
Equity in loss of unconsolidated affiliates			(427)
Interest expense	(9,030)	(22,961)	(9,869)
Interest income	2,951	204	17
Debt extinguishment costs	(2,967)	(6,882)	
Realized (loss) gain on derivative instruments	(30,309)	2,830	39,160
Unrealized (loss) gain on derivative instruments	12,264	(27,586)	(7,788)
Other	(274)	38	66
Total other income (expense)	(27,365)	(54,357)	21,159
Net income before income taxes	94,072	11,328	8,970
Income tax expense	190		
Net income	\$ 93,882	\$ 11,328	\$ 8,970
Allocation of net income:			
Net income applicable to Predecessor for the period through January 31, 2006		4,408	
Net income applicable to Calumet	89,474		
Minimum quarterly distribution to common unitholders	(24,495)		
General partner's incentive distribution rights	(18,157)		
General partner's interest in net income	(840)		
Common unitholders' share of income in excess of minimum quarterly distribution	(17,958)		

Limited partners' interest in net income		28,024
Basic net income per limited partner unit:		
Common	\$	2.81
Subordinated	\$	2.14
Diluted net income per limited partner unit:		
Common	\$	2.81
Subordinated	\$	2.14
Weighted average limited partner common units outstanding - basic		14,642
Weighted average limited partner subordinated units outstanding - basic		13,066
Weighted average limited partner common units outstanding - diluted		14,642
Weighted average limited partner subordinated units outstanding - diluted		13,066

See accompanying notes to consolidated financial statements.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL**

		Accumulated Other		Partners Capital Limited Partners			
	Predecessor Partners Capital	Comprehensive Income (Loss)	General Partner	Common	Subordinated	Total	
Balance at January 1, 2004	\$ 25,544					\$ 25,544	
Net income	8,970					8,970	
Balance at December 31, 2004	34,514					34,514	
Comprehensive income:							
Net income	11,328					11,328	
Change in fair value of cash flow hedges		\$ 497				497	
Total comprehensive income						11,825	
Distributions to partners	(7,285)					(7,285)	
Balance at December 31, 2005	38,557	497	\$	\$	\$	39,054	
Comprehensive income through January 31, 2006 for the Predecessor:							
Net income through January 31, 2006	4,408					4,408	
Hedge (gain)/loss reclassified to net income		(497)				(497)	
Change in fair value of cash flow hedges through January 31, 2006		1,578				1,578	
Comprehensive income through January 31, 2006 for the Predecessor						5,489	
Distributions to Predecessor partners	(6,900)					(6,900)	
Assets and liabilities not contributed to Calumet	(5,626)					(5,626)	
Allocation of Predecessor's capital	(30,439)		609	9,128	20,702		
Proceeds from initial public offering, net				138,743		138,743	

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Contribution from Calumet GP, LLC		375				375
Comprehensive income from February 1, 2006 through December 31, 2006 for Calumet:						
Net income from February 1, 2006 through December 31, 2006		10,470	41,917	37,087		89,474
Change in fair value of cash flow hedges from February 1, 2006 through December 31, 2006		50,673				50,673
Comprehensive income from February 1, 2006 through December 31, 2006 for Calumet						140,147
Proceeds from follow-on public offering, net			103,479			103,479
Contribution from Calumet GP, LLC		2,218				2,218
Units repurchased for phantom unit grants			(69)			(69)
Amortization of vested phantom units			61			61
Distributions to partners		(1,013)	(20,286)	(16,987)		(38,286)
Balance at December 31, 2006	\$	\$ 52,251	\$ 12,659	\$ 272,973	\$ 40,802	\$ 378,685

See accompanying notes to consolidated financial statements.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Calumet	Predecessor	
	Year Ended December 31,		
	2006	2005	2004
	(In		
	thousands)		
Operating activities			
Net income	\$ 93,882	\$ 11,328	\$ 8,970
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,760	10,386	6,927
Provision for doubtful accounts	172	294	216
Loss on disposal of property and equipment	91	232	59
Amortization of vested phantom units	61		
Equity in loss of unconsolidated affiliates			427
Restructuring charge		1,693	
Debt extinguishment costs	2,967	4,173	
Dividends received from unconsolidated affiliates			3,470
Other			332
Changes in assets and liabilities:			
Accounts receivable	16,031	(56,878)	(19,399)
Inventories	(2,554)	(25,441)	(20,304)
Prepaid expenses	9,293	6,473	(8,472)
Derivative activity	(13,143)	31,598	5,046
Deposits and other current assets	6,890	(5,904)	(3,124)
Other noncurrent assets	4,242	(4,561)	161
Accounts payable	33,993	(13,268)	25,764
Accrued salaries, wages and benefits	(2,489)	6,186	1,323
Accrued turnaround costs	2,426	581	246
Other taxes payable	2,962	3,774	(53)
Asset retirement obligation		(100)	(1,276)
Other current liabilities	184	(4,567)	(172)
Other noncurrent liabilities			(753)
Net cash provided by (used in) operating activities	166,768	(34,001)	(612)
Investing activities			
Additions to property, plant and equipment	(76,064)	(12,963)	(43,033)
Proceeds from disposal of property, plant and equipment	261	60	103
Net cash used in investing activities	(75,803)	(12,903)	(42,930)
Financing activities			
Proceeds from borrowings credit agreements with third parties	335,069	1,415,374	93,940
Payments of borrowings credit agreements with third parties	(553,554)	(1,197,184)	(44,145)
Proceeds from borrowings credit agreement with limited partners		546,565	586,410

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Payments of borrowings – credit agreement with limited partners		(710,839)	(568,988)
Proceeds from initial public offering, net	138,743		
Proceeds from follow-on public offering, net	103,479		
Contributions from Calumet GP, LLC	2,593		
Distribution to Calumet Holding, LLC	(3,258)		
Distributions to Predecessor partners	(6,900)	(7,285)	
Distributions to partners	(38,286)		
Repurchase of units for phantom unit grants	(69)		
Debt issuance costs		(5,641)	(5,656)
Cash provided by (used in) financing activities	(22,183)	40,990	61,561
Net increase (decrease) in cash	68,782	(5,914)	18,019
Cash and cash equivalents at beginning of period	12,173	18,087	68
Cash and cash equivalents at end of period	\$ 80,955	\$ 12,173	\$ 18,087
Supplemental disclosure of cash flow information			
Interest paid	\$ 11,986	\$ 22,890	\$ 9,367
Income taxes paid	\$ 175	\$	\$

See accompanying notes to consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except operating, unit and per unit data)

1. Description of the Business

Calumet Specialty Products Partners, L.P. (Calumet, Partnership, or the Company) is a Delaware limited partnership. The general partner is Calumet GP, LLC, a Delaware limited liability company. On January 31, 2006, the Partnership completed the initial public offering of its common units. At that time, substantially all of the assets or liabilities of Calumet Lubricants Co., Limited Partnership and its subsidiaries (Predecessor) were contributed to Calumet. References to the Predecessor in these consolidated financial statements refer to Calumet Lubricants Co., Limited Partnership and its subsidiaries. On July 5, 2006, the Partnership completed a follow-on public offering of its common units. See Note 9 for further discussion of the units sold and proceeds from these offerings. As of December 31, 2006, we have 16,366,000 common units, 13,066,000 subordinated units, and 600,653 general partner equivalent units outstanding. The general partner owns 2% of Calumet while the remaining 98% is owned by limited partners. Calumet is engaged in the production and marketing of crude oil-based specialty lubricating oils, fuels, solvents and waxes. Calumet owns refineries located in Princeton, Louisiana, Cotton Valley, Louisiana, and Shreveport, Louisiana, and a terminal located in Burnham, Illinois.

Effective October 25, 2004 in conjunction with financing agreements entered into related to the Shreveport refinery fuels reconfiguration as discussed in Note 3, Calumet Lubricants Co., Limited Partnership (Predecessor) contributed the assets and certain liabilities related to the Shreveport refinery to an Indiana limited liability company, Calumet Shreveport, LLC (Calumet Shreveport). The Predecessor is the sole member of Calumet Shreveport. Calumet Shreveport, LLC then contributed the assets and certain liabilities of the Shreveport Refinery to two Indiana limited liability companies, Calumet Shreveport Fuels, LLC (Fuels) and Calumet Shreveport Lubricants & Waxes, LLC (Lubricants & Waxes). The sole member of both Fuels and Lubricants & Waxes is Calumet Shreveport.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements of Calumet include the accounts of Calumet Specialty Products Partners, L.P. and its wholly-owned operating subsidiaries, Calumet Lubricants Co., Limited Partnership, Calumet Sales Company Incorporated and Calumet Shreveport. Calumet Shreveport's wholly-owned operating subsidiaries are Fuels and Lubricants & Waxes. All intercompany transactions and accounts have been eliminated. Hereafter, the consolidated companies are referred to as the Company. Certain reclassifications have been made to prior years to conform to current year presentation of the Company's consolidated financial statements.

Use of Estimates

The Company's financial statements are prepared in conformity with U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents includes all highly liquid investments with a maturity of three months or less at the time of purchase.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****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:

	Calumet December 31, 2006	Predecessor December 31, 2005
Raw materials	\$ 26,791	\$ 28,299
Work in process	30,130	29,737
Finished goods	54,064	50,395
	\$ 110,985	\$ 108,431

The replacement cost of these inventories, based on current market values, would have been \$46,711 and \$47,763 higher at December 31, 2006 and 2005, respectively. During the years ended December 31, 2006 and 2005, the Company recorded \$2,127 and \$5,168, respectively, of income in the consolidated statements of operations due to the liquidation of a portion of its LIFO inventory.

Accounts Receivable

The Company performs periodic credit evaluations of customers' financial condition and generally does not require collateral. Receivables are generally due within 30 days for our specialty products segment and 10 days for our fuel products segment. The Company maintains an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. The Company makes estimates regarding the future ability of its customers to make required payments based on historical credit experience and expected future trends. The activity in the allowance for doubtful accounts was as follows:

	Calumet December 31, 2006	Predecessor December 31, 2005	2004
Beginning balance	\$ 750	\$ 456	\$ 240
Provision	172	317	216
Write-offs, net	(140)	(23)	

Ending balance	\$ 782	\$ 750	\$ 456
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Prepaid Expenses

Prepaid expenses as of December 31, 2006 and 2005 include payments made to crude oil suppliers of \$0 and \$8,271, respectively, to prepay for certain of the Company's future crude oil purchases.

Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost. Depreciation is calculated generally on composite groups, using the straight-line method over the estimated useful lives of the respective groups.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Property, plant and equipment, including depreciable lives, consists of the following:

	Calumet December 31, 2006	Predecessor December 31, 2005
Land	\$ 1,047	\$ 973
Buildings and improvements (10 to 40 years)	1,811	1,602
Machinery and equipment (10 to 20 years)	167,195	162,651
Furniture and fixtures (5 to 10 years)	1,198	2,235
Construction-in-progress	68,519	3,878
	239,770	171,339
Less accumulated depreciation	(48,038)	(43,493)
	\$ 191,732	\$ 127,846

Under the composite depreciation method, the cost of partial retirements of a group is charged to accumulated depreciation. However, when there are dispositions of complete groups or significant portions of groups, the cost and related accumulated depreciation are retired, and any gain or loss is reflected in earnings.

During the years ended December 31, 2006, 2005, and 2004, the Company incurred \$10,998, \$23,154, and \$10,171, respectively, of interest expense of which \$1,968, \$193, and \$302, respectively, was capitalized as a component of property, plant and equipment.

Turnaround Costs

The Company accounts for periodic major maintenance and repairs (turnaround costs) applicable to its refining facilities using the accrue-in-advance method. Normal maintenance and repairs of all other property, plant and equipment are charged to cost of sales as incurred. Renewals, betterments and major repairs that materially extend the life of the properties are capitalized. Effective January 1, 2007, the Company will adopt a new method of accounting for turnaround costs in accordance with FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, as discussed in *New Accounting Pronouncements*. Turnaround activity was as follows:

	Calumet 2006	Predecessor December 31, 2005	2004
Beginning balance	\$ 2,679	\$ 2,098	\$ 1,852
Provision	4,963	3,939	2,129

Usage	(2,537)	(3,358)	(1,883)
Ending balance	\$ 5,105	\$ 2,679	\$ 2,098

Impairment of Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including definite-lived intangible assets, when events or circumstances warrant such a review. The carrying value of a long-lived asset to be held and used is considered impaired when the anticipated separately identifiable undiscounted cash flows from such an asset are less than the carrying value of the asset. In that event, a write-down of the asset would be recorded through a charge to operations, based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

discounted at a rate commensurate with the risk involved. Long-lived assets to be disposed of other than by sale are considered held and used until disposal.

Revenue Recognition

The Company recognizes revenue on orders received from its customers when there is persuasive evidence of an arrangement with the customer that is supportive of revenue recognition, the customer has made a fixed commitment to purchase the product for a fixed or determinable sales price, collection is reasonably assured under the Company's normal billing and credit terms, all of the Company's obligations related to product have been fulfilled and ownership and all risks of loss have been transferred to the buyer, which is upon shipment to the customer.

Income Taxes

The Company, as a partnership, is not liable for income taxes on the earnings of Calumet Specialty Products Partners, L.P. and its wholly-owned subsidiaries Calumet Lubricants Co., Limited Partnership and Calumet Shreveport. However, Calumet Sales Company Incorporated, a wholly-owned subsidiary of the Company, is a corporation and as a result, is liable for income taxes on its earnings. Income taxes on the earnings of the Company, with the exception of Calumet Sales Company Incorporated, are the responsibility of the partners, with earnings of the Company included in partners' earnings.

Net income for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under the partnership agreement. Individual unitholders have different investment bases depending upon the timing and price of acquisition of their partnership units. Furthermore, each unitholder's tax accounting, which is partially dependent upon the unitholder's tax position, differs from the accounting followed in the consolidated financial statements. Accordingly, the aggregate difference in the basis of net assets for financial and tax reporting purposes cannot be readily determined because information regarding each unitholder's tax attributes in the partnership is not readily available.

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. In accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, which was amended in June 2000 by SFAS No. 138 and in May 2003 by SFAS No. 149 (collectively referred to as SFAS 133), the Company recognizes all derivative transactions as either assets or liabilities at fair value on the balance sheet. To the extent a derivative instrument is designated 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, a component of partners' capital. The Company accounts for certain derivatives hedging purchases of crude oil and natural gas, the sale of gasoline, diesel and jet fuel and the payment of interest as cash flow hedges. The derivatives hedging purchases and sales are recorded to cost of sales and sales in the consolidated statements of operations, respectively, upon recording the related hedged transaction in sales or cost of sales. The derivatives hedging payments of interest are recorded in interest expense in the consolidated statements of operations. For the year ended December 31, 2006, the Company has recorded a derivative gain of \$6 to sales and a derivative loss of \$11,070 to cost of sales. An interest rate swap loss of \$7 for the year ended December 31, 2006 was recorded

to interest expense. 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 or loss on derivative instruments in the consolidated statements of operations. The Company does not account for fuel products margin swap or collar contracts (crack spread swaps or collars) as cash flow hedges. As of December 31, 2006, the Company has no such derivative contracts

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

outstanding. Upon the settlement of a derivative not designated as a cash flow hedge, the gain or loss at settlement is recorded to realized gain or loss on derivative instruments in the consolidated statements of operations.

During 2004 and through November 30, 2005, none of our outstanding derivative transactions were designated as hedges. At December 31, 2005, certain derivatives hedging natural gas and crude oil purchases for our specialty products segment were designated as cash flow hedges. Effective April 1, 2006, the Company restructured and designated certain derivative contracts for its fuel products segment as cash flow hedges of gasoline, diesel, and jet fuel sales and crude oil purchases to the extent they qualify for hedge accounting, and the effective portion of these hedges is recorded in accumulated other comprehensive income on the consolidated balance sheets until the underlying transaction hedged is recognized in the consolidated statements of operations. Prior to this date, the historical impact of fair value fluctuations in our gasoline, diesel and crude oil derivative instruments for the fuel products segment had been reflected in the realized/unrealized gain (loss) on derivative instruments line items in our consolidated statements of operations. The Company utilizes third party valuations and published market data to determine the fair value of these derivatives.

The Company assesses, both at inception of the hedge and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The Company's estimate of the ineffective portion of the hedges for the year ended December 31, 2006 and 2005, was a gain of \$4,071 and \$0, respectively, which was recorded to unrealized (loss) gain on derivative instruments. The effective portion of the hedges classified in accumulated other comprehensive income is \$52,251 and, absent a change in the fair market value of the underlying transactions, will be reclassified to earnings by December 31, 2012 with balances being recognized as follows:

Year	Other Comprehensive Income (Loss)	
2007	\$	13,803
2008		15,321
2009		12,618
2010		10,702
2011		(59)
2012		(134)
Total	\$	52,251

The Company is exposed to credit risk in the event of nonperformance with our counterparties on these derivative transactions. The Company does not expect nonperformance on any derivative contract.

Equity Investments in Unconsolidated Affiliates

Bareco Products (Bareco) was a South Carolina general partnership which marketed finished wax products. The Predecessor acquired a 50% interest in Bareco during 2000. The Predecessor accounted for this investment under the

equity method of accounting. Therefore, the Predecessor's share of income and loss generated by Bareco is reflected as equity in income (loss) of unconsolidated affiliates in the consolidated statements of operations. As further discussed in Note 4, during December 2003 the Company and its joint venture partner entered into an agreement to dissolve the Bareco Products partnership.

Other Noncurrent Assets

Other noncurrent assets at December 31, 2006 and 2005 include \$2,112 and \$5,565, respectively, of deferred debt issuance costs, which are being amortized on a straight-line basis over the life of the related debt instruments. These amounts are net of accumulated amortization of \$562 and \$76 at December 31, 2006 and 2005, respectively.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other noncurrent assets also include \$566 and \$1,021 at December 31, 2006 and 2005, respectively, of intangible assets, net of accumulated amortization, purchased to facilitate the sales of horticultural spray oil products. These intangible assets are being amortized on a straight-line basis, over an estimated useful life of five years. Accumulated amortization on these intangible assets was \$1,710 and \$1,255 at December 31, 2006 and 2005, respectively. Annual amortization for 2007 and 2008 will be \$455 and \$111, respectively.

Earnings per Unit

The Partnership calculates earnings per unit in accordance with SFAS 128, *Earnings Per Share*, as interpreted by Emerging Issues Task Force Issue No. 03-06, Participating Securities and the Two Class Method under FASB Statement No. 128. Under this approach, common and subordinated limited units represent separate classes of limited partner units that require two-class presentation under SFAS No. 128. Therefore, the Partnership calculates basic and diluted earnings per unit on a discrete quarterly basis assuming the minimum quarterly distribution, prorated if necessary, is paid on all common units outstanding and that all undistributed earnings or losses in the period are fully allocated to limited partner units and the general partner based on their contractual participation rights as if all of the earnings or losses for the period had been distributed.

Shipping and Handling Costs

The Company adheres to Emerging Issues Task Force (EITF) 00-10, *Accounting for Shipping and Handling Fees and Costs*. This EITF requires the classification of shipping and handling costs billed to customers in sales and the classification of shipping and handling costs incurred in cost of sales, or if classified elsewhere to be disclosed. The Company has reflected \$56,922, \$46,849 and \$33,923 for the years ended December 31, 2006, 2005, and 2004, respectively, in transportation expense in the consolidated statements of operations, of which a significant portion is billed to customers.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (the Interpretation), an interpretation of FASB Statement No. 109. The Interpretation clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position to be taken or expected to be taken in a tax return. The Interpretation is effective for fiscal years beginning after December 15, 2006. This Interpretation will not have a material effect on the financial position, results of operations or cash flows of the Company when adopted on January 1, 2007.

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock Based Compensation*. Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) is effective for fiscal years beginning after July 1, 2005. The Company adopted Statement 123(R) using the modified prospective method in which compensation cost is recognized beginning with the effective date based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date. The total impact of adoption of Statement 123(R) was not material.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*, which amends certain provisions in the AICPA Industry Audit Guides, *Audits of Airlines*, and APB Opinion No. 28, *Interim Financial Reporting* (the Position). The Position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities, or turnarounds, and requires the use of the direct expensing method, built-in overhaul method, or deferral method. The Position is effective for fiscal years beginning after December 15, 2006.

Effective January 1, 2007, the Company will adopt the Position and elect the deferral method. Under this method, actual costs of an overhaul are capitalized and amortized to cost of sales until the next overhaul date. Prior to the adoption of this standard, the Company accrued for such overhaul costs in advance of the turnaround and recorded the expense to cost of sales. The adoption of the position would have resulted in a decrease in turnaround costs, a component of cost of sales, of \$1,696, \$1,598 and \$(689) for the years ended December 31, 2006, 2005 and 2004, respectively. Furthermore, the adoption will result in the capitalization of turnaround costs of \$1,478 and \$2,234 as of December 31, 2006 and 2005, respectively, as compared to turnaround liabilities previously recorded of \$5,105 and 2,679, respectively, for the same dates.

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements* (the Statement). The Statement applies to assets and liabilities required or permitted to be measured at fair value under other accounting pronouncements. The Statement defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value, but does not provide guidance whether assets and liabilities are required or permitted to be measured at fair value. The Statement is effective for fiscal years beginning after November 15, 2007. The Company does not anticipate that this Statement will have a material effect on its financial position, results of operations or cash flows.

3. Shreveport Refinery Expansion and Reconfiguration

The Company commenced purchasing equipment for an expansion project at its Shreveport refinery during the second quarter of 2006. As of December 31, 2006, the Company had capital expenditures of \$65,492 (including \$1,684 of capitalized interest) related to this expansion project, which is recorded to construction-in-progress, a component of property, plant and equipment, of which approximately \$13,000 relates assets and services yet to be received. In December 2006, the Company received an air permit from the Louisiana Department of Environmental Quality and commenced construction. Management has estimated that the Company will incur approximately \$84,500 of additional capital expenditures in 2007 related to the expansion project. The expansion project is expected to be completed in the third quarter of 2007. Management currently estimates the total cost of the Shreveport refinery expansion project will be approximately \$150,000.

During 2004, the Company substantially completed the reconfiguration of the Shreveport refinery to add motor fuels production, including gasoline, diesel and jet fuel, as well as to increase overall feedstock throughput. The Shreveport refinery fuels reconfiguration was fully operational and met its completion requirements as of February 28, 2005, as required by the Company's loan agreements then in effect. The capital project, of which \$39,663 was expended in total, included the recommissioning of several existing idled fuel production units. As discussed in Note 1, the Company formed legal entities to hold the assets and liabilities related to the Shreveport refinery. In conjunction with the reconfiguration, Calumet Shreveport, Fuels and Lubricants & Waxes entered into standalone financing arrangements during 2004, including a term loan agreement and a revolving loan agreement to fund capital

expenditures and additional working capital requirements related to the reconfiguration. These financing arrangements were repaid on December 9, 2005 as described in Note 6.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Restructuring, Decommissioning and Asset Impairments*****Rouseville***

In connection with the Company's decision to exit its multigrade wax processing facility located in Rouseville, Pennsylvania (Rouseville), in 2003 the Company began implementation of a plan to demolish the Rouseville facility assets. The demolition was completed during 2004. The facility assets included operating units, equipment, tankage and real property. As a result of the decision to demolish the Rouseville facility assets, the Company recorded a facility asset impairment charge in 2003 for the full amount of the carrying value of the assets as of the decision date to demolish the assets. In 2004, the Company incurred additional charges totaling \$317 primarily related to the completion of the Rouseville asset decommissioning.

In accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, the Company recorded an asset retirement obligation during 2003 for obligations associated with the retirement of fixed assets at its Rouseville wax processing facility as of its decision date to demolish the facility, as discussed above. This obligation consisted primarily of remaining asbestos abatement costs as well as other costs, which were substantially completed by the end of 2004. The net book value of the Rouseville operation was not included within the net assets contributed to Calumet by its Predecessor as a part of the initial public offering, and therefore are not included within its results of operations subsequent to January 31, 2006.

A rollforward of the Company's asset retirement obligation for the years ended December 31, 2005 and 2004 is as follows:

Balance January 1, 2004	\$ 1,376
2004 Rouseville asset retirement obligation provision	
2004 Interest cost accretion	35
2004 Payments	(1,311)
Balance December 31, 2004	100
2005 Payments	(100)
Balance December 31, 2005	\$

Bareco Products

During December 2003, the Company entered into an agreement with its joint venture partner to dissolve the Bareco Products partnership and for each partner to pursue its own wax marketing interests. Per the terms of the agreement, all significant business activities undertaken by the partnership ended as of December 31, 2003. The affairs of Bareco Products were wound down during 2004, and legal dissolution of the partnership was completed during 2005.

In 2004, the Company incurred costs in excess of amounts estimated in 2003 related to the liquidation of the partnership. These costs of \$427 are reflected in equity in (loss) income of unconsolidated affiliates in the consolidated statements of operations for the year ended December 31, 2004.

Reno

In June 2005, the Company began the process of closing its wax packaging facility in Reno, Pennsylvania (Reno) including the termination of employees and the commencement of decommissioning activities. The Company recognized \$509 of decommissioning expense associated with these activities in the year ended December 31, 2005. Given these circumstances, the Company evaluated the carrying amount of long-lived assets at Reno in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-lived Assets* (SFAS 144). The Company concluded that the carrying value of these assets was impaired. Thus, an impairment charge of \$1,718 has been recorded in restructuring, decommissioning and asset

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impairments in the consolidated statements of operations for the year ended December 31, 2005 in order to write-down the carrying value of the assets to estimated fair value. This facility has historically been included in the specialty products segment and served to package multigrade waxes. The net book value of the Reno operation was not included within the net assets contributed to Calumet by its Predecessor as a part of the initial public offering, and therefore are not included within its results of operations subsequent to January 31, 2006.

5. Commitments and Contingencies***Leases***

The Company has various operating leases for the use of land, storage tanks, compressor stations, rail cars, equipment, precious metals, operating unit catalyst and office facilities that extend through August 2015. Renewal options are available on certain of these leases in which the Company is the lessee. Rent expense for the years ended December 31, 2006, 2005, and 2004 was \$10,894, \$8,389 and \$7,415, respectively.

As of December 31, 2006, the Company had estimated minimum commitments for the payment of rentals under leases which, at inception, had a noncancelable term of more than one year, as follows:

Year	Commitment
2007	\$ 8,837
2008	5,927
2009	5,257
2010	4,664
2011	3,278
Thereafter	6,444
Total	\$ 34,407

Effective March 1, 2005, the Company entered into a crude purchase contract with a supplier that contains minimum annual purchase requirements. To the extent the Company does not meet this requirement, it would be required to pay \$0.25 per barrel on the difference between the minimum purchase requirement and the actual purchases. Since inception of the contract, the Company has taken delivery of all minimum requirements. As of December 31, 2006, the estimated minimum purchase requirements under this contract and other crude purchase contracts were as follows:

Year	Commitment
2007	\$ 263,317
2008	37,985
2009	
2010	

2011
Thereafter

Total \$ 301,302

Contingencies

From time to time, the Company is a party to certain claims and litigation incidental to its business. Management is of the opinion that the ultimate resolution of any known claims, either individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Environmental

The Company operates crude oil and specialty hydrocarbon refining and terminal operations, which are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations can impair the Company's operations that affect the environment in many ways, such as requiring the acquisition of permits to conduct regulated activities; restricting the manner in which the Company can release materials into the environment; requiring remedial activities or capital expenditures to mitigate pollution from former or current operations; and imposing substantial liabilities for pollution resulting from its operations. Certain environmental 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.

Failure to comply with environmental laws and regulations may result in the triggering of administrative, civil and criminal measures, including the assessment of monetary penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or prohibiting some or all of the Company's operations. On occasion, the Company receives notices of violation, enforcement and other complaints from regulatory agencies alleging non-compliance with applicable environmental laws and regulations. In particular, the Louisiana Department of Environmental Quality (LDEQ) has proposed penalties totaling \$191 and supplemental projects for the following alleged violations: (i) a May 2001 notification received by the Cotton Valley refinery from the LDEQ regarding several alleged violations of various air emission regulations, as identified in the course of the Company's Leak Detection and Repair program, and also for failure to submit various reports related to the facility's air emissions; (ii) a December 2002 notification received by the Company's Cotton Valley refinery from the LDEQ regarding alleged violations for excess emissions, as identified in the LDEQ's file review of the Cotton Valley refinery; and (iii) a December 2004 notification received by the Cotton Valley refinery from the LDEQ regarding alleged violations for the construction of a multi-tower pad and associated pump pads without a permit issued by the agency. The Company is currently in settlement negotiations with the LDEQ to resolve these matters, as well as a number of similar matters at the Princeton refinery, for which no penalty has yet been proposed. We anticipate that any penalties that may be assessed due to the alleged violations at our Princeton refinery will be consolidated in a settlement agreement that we anticipate executing with the LDEQ in connection with the agency's Small Refinery and Single Site Refinery Initiative described below.

The Company has recently entered into discussions on a voluntary basis with the LDEQ regarding the Company's participation in that agency's Small Refinery and Single Site Refinery Initiative. This state initiative is patterned after the EPA's National Petroleum Refinery Initiative, which is a coordinated, integrated compliance and enforcement strategy to address federal Clean Air Act compliance issues at the nation's largest petroleum refineries. The Company expects that the LDEQ's primary focus under the state initiative will be on four compliance and enforcement concerns: (i) Prevention of Significant Deterioration/New Source Review; (ii) New Source Performance Standards for fuel gas combustion devices, including flares, heaters and boilers; (iii) Leak Detection and Repair requirements; and (iv) Benzene Waste Operations National Emission Standards for Hazardous Air Pollutants. The Company is only in the beginning stages of discussion with the LDEQ and, consequently, while no significant compliance and enforcement expenditures have been requested as a result of the Company's discussions, the Company anticipates that it will ultimately be required to make emissions reductions requiring capital investments between approximately \$1,000 and \$3,000 over a three to five year period at the Company's three Louisiana refineries.

Voluntary remediation of subsurface contamination is in process at each of our refinery sites. The remedial projects are being overseen by the appropriate state agencies. Based on current investigative and remedial activities, we believe that the groundwater contamination at these refineries can be controlled or remedied without having a material adverse effect on our financial condition. However, such costs are often unpredictable and, therefore, there can be no assurance that the future costs will not become material.

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

On December 27, 2006, the LDEQ approved the Company's application for a modification of its air emissions permit for the Shreveport refinery expansion. The Company was required to obtain approval of this modified air emissions permit from the LDEQ prior to commencing construction of the expansion activities. Upon receipt of the permit approval from the LDEQ, the Company commenced construction of the Shreveport refinery expansion project. On February 22, 2007, the Company received notice that on February 13, 2007 an individual filed, on behalf of the Residents for Air Neutralization, a Petition for Review in the 19th Judicial District Court for East Baton Rouge Parish, Louisiana, asking the Court to review the approval granted by the LDEQ for the Company's application for a modified air emissions permit. The Petition alleges the information in the final LDEQ decision report was inaccurate and that, based on the LDEQ's decision to grant the modified air emissions permit, the LDEQ had not reviewed the evidence put before them properly. There is a question, unresolved at this time, concerning whether the Petition was timely filed. If it was timely filed, the LDEQ will have sixty days after service of the Petition to file the record of its proceedings with the district court. The Company believes that the LDEQ will be successful in defending its approval of the Company's application for a modified air emissions permit. The Company is not named at this time as a party to the Petition.

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 December 31, 2006 and 2005, the Company had outstanding standby letters of credit of \$42,775 and \$37,746, respectively, under its senior secured revolving credit facility. As discussed in Note 6 below, as of December 31, 2006 the Company also had a \$50,000 letter of credit outstanding under the senior secured first lien letter of credit facility for its fuels hedging program, which bears interest at 3.50%.

6. Long-Term Debt

Long-term debt consisted of the following:

	Calumet December 31, 2006	Predecessor December 31, 2005
Borrowings under senior secured revolving credit agreement with third-party lenders, interest at prime (8.25% and 7.25% at December 31, 2006 and 2005, respectively), interest payments monthly, borrowings due December 2010	\$ 49,500	\$ 92,985
Borrowings under senior secured first lien term loan with third-party lenders, interest at rate of three-month LIBOR plus 3.50% (8.85% and 7.99% at December 31, 2006 and 2005, respectively), interest and principal payments		175,000

quarterly with borrowings due December 2012

Total long-term debt	49,500	267,985
Less current portion of long-term debt	500	500
	\$ 49,000	\$ 267,485

On December 9, 2005, the Company paid off its existing indebtedness by entering into a \$225,000 senior secured revolving credit facility due December 2010 and a \$225,000 senior secured first lien credit facility consisting of a \$175,000 term loan facility and a \$50,000 letter of credit facility to support its fuels hedging program

Table of Contents**CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

due December 2012. These facilities contain financial covenants including a fixed charge coverage ratio and a consolidated leverage ratio. The revolving credit facility borrowings are limited by advance rates of percentages of eligible accounts receivable and inventory (the borrowing base) as defined by the revolving credit agreement. All guarantees and pledges of assets under the indebtedness repaid on December 9, 2005 were released upon its repayment with the borrowings under our current agreements.

The maximum borrowing capacity at December 31, 2006 was \$178,757, with \$135,981 available for additional borrowings based on collateral and specified availability limitations. The term loan facility borrowings are secured by a first lien on the property, plant and equipment of the Company and its subsidiaries. The net proceeds of our initial public offering (see Note 9) were used to repay indebtedness and accrued interest under the first lien term loan facility in the amount of approximately \$125,700 and repay indebtedness under the secured revolving credit facility in the amount of approximately \$13,100. After this repayment, the term loan requires quarterly principal payments of

\$125 through December 2011 and quarterly principal payments of approximately \$11,800 thereafter until maturing in December 2012. The Company is in compliance with all covenants and restrictions defined in these credit agreements.

As of December 31, 2006, maturities of the Company's long-term debt is as follows:

Year	Maturity
2007	\$ 500
2008	500
2009	500
2010	500
2011	500
2012	\$ 47,000
Total	\$ 49,500

7. Derivatives

The Company has the following derivative instruments outstanding as of December 31, 2006 and 2005.

Crude Oil Collar Contracts

The Company utilizes combinations of options to manage crude oil price risk and volatility of cash flows in its specialty products segment. These combinations of options are designated as cash flow hedges of the future purchase of crude oil. The Company's policy is generally to enter into crude oil derivative contracts for a period no greater than three to six months forward and for 50% to 75% of anticipated crude oil purchases related to our specialty products production. At December 31, 2006, the Company had the following derivatives related to crude oil purchases.

Crude Oil Put/Call Spread Contracts by Expiration Dates	Barrels	BPD	Average Lower Put (\$/Bbl)	Average Upper Put (\$/Bbl)	Average Lower Call (\$/Bbl)	Average Upper Call (\$/Bbl)
January 2007	248,000	8,000	\$ 48.66	\$ 58.66	\$ 68.66	\$ 78.66
February 2007	224,000	8,000	49.28	59.28	69.28	79.28
March 2007	248,000	8,000	50.85	60.85	70.85	80.85
Totals	720,000					
Average price			\$ 49.61	\$ 59.61	\$ 69.61	\$ 79.61

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At December 31, 2005, the Company had the following derivatives related to crude oil purchases.

Crude Oil Put/Call Spread Contracts by Expiration Dates	Barrels	BPD	Average Lower Put (\$/Bbl)	Average Upper Put (\$/Bbl)	Average Lower Call (\$/Bbl)	Average Upper Call (\$/Bbl)
January 2006	248,000	8,000	\$ 46.02	\$ 55.57	\$ 65.57	\$ 75.57
February 2006	224,000	8,000	46.13	55.71	65.71	75.71
March 2006	248,000	8,000	45.64	55.41	65.41	75.41
April 2006	240,000	8,000	45.85	55.58	65.58	75.58
Totals	960,000					
Average price			\$ 45.90	\$ 55.56	\$ 65.56	\$ 75.56

Crude Oil Swap Contracts

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 purchases used in fuels production. At December 31, 2006, the Company had the following derivatives related to crude oil purchases in its fuel products segment, all of which are designated as hedges.

Crude Oil Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
First Quarter 2007	1,710,000	19,000	65.14
Second Quarter 2007	1,728,000	18,989	64.68
Third Quarter 2007	1,742,000	18,935	65.51
Fourth Quarter 2007	1,742,000	18,935	65.51
Calendar Year 2008	8,143,000	22,249	67.37
Calendar Year 2009	7,482,500	20,500	66.04
Calendar Year 2010	5,840,000	16,000	67.40
Calendar Year 2011	363,500	996	65.99
Totals	28,751,000		
Average price			\$ 66.49

Fuels Product Swap Contracts

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 and gasoline swap contracts for a period no greater than five years forward and for no more than 75% of forecasted fuels sales.

Diesel Swap Contracts

At December 31, 2006, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as hedges except for 169,855 barrels in 2007. As a result of these barrels not being designated as hedges, the Company recognized \$1,314 of gains in unrealized (loss) gain on derivative instruments in the consolidated statements of operations.

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Diesel Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
First Quarter 2007	1,080,000	12,000	81.10
Second Quarter 2007	1,092,000	12,000	80.74
Third Quarter 2007	1,102,000	11,978	81.36
Fourth Quarter 2007	1,102,000	11,978	81.36
Calendar Year 2008	4,941,000	13,500	82.18
Calendar Year 2009	4,562,500	12,500	80.50
Calendar Year 2010	3,650,000	10,000	80.52
Calendar Year 2011	273,000	748	76.52
Totals	17,802,500		
Average price			\$ 81.07

Gasoline Swap Contracts

At December 31, 2006, the Company had the following derivatives related to gasoline sales in its fuel products segment, all of which are designated as hedges.

Gasoline Swap Contracts by Expiration Dates	Barrels	BPD	(\$/Bbl)
First Quarter 2007	630,000	7,000	72.09
Second Quarter 2007	636,000	6,989	71.38
Third Quarter 2007	640,000	6,957	72.67
Fourth Quarter 2007	640,000	6,957	72.67
Calendar Year 2008	3,202,000	8,749	76.17
Calendar Year 2009	2,920,000	8,000	73.45
Calendar Year 2010	2,190,000	6,000	75.27
Calendar Year 2011	90,500	248	70.87
Totals	10,948,500		
Average price			\$ 74.30

Fuels Product Margin (Crack Spread) Swap and Collar Contracts

Additionally, as of December 31, 2005 the Company had utilized combinations of options and forward swap contracts to manage fuels product margin (crack spread) price risk and volatility of cash flows. These contracts were not designated as hedges under SFAS 133. For purposes of these swap contracts, crack spread is defined as the difference between the selling price of one barrel of refined product (gasoline or diesel) less the price of one barrel of crude oil, with all component pricing based on standard market indices as defined in the contracts. The Company entered into various combinations of these swap contracts to achieve an approximate 2/1/1 crack spread ratio, which means two barrels of crude oil and one barrel each of gasoline and diesel. At December 31, 2005, the Company had the following derivative positions related its fuel products segment. These derivatives have been restructured as of April 1, 2006 as

discussed above.

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Crack Spread Swap Contracts by Expiration Dates	Barrels	BPD	Crack Spread (\$/Bbl)
First Quarter 2006	1,035,000	11,500	\$ 9.00
Second Quarter 2006	1,039,000	11,418	8.98
Third Quarter 2006	1,043,000	11,337	8.65
Fourth Quarter 2006	1,043,000	11,337	8.28
First Quarter 2007	1,260,000	14,000	11.59
Second Quarter 2007	1,273,000	13,989	11.56
Third Quarter 2007	1,282,000	13,935	11.60
Fourth Quarter 2007	1,282,000	13,935	11.60
Totals	9,257,000		
Average price			\$ 10.30

As of December 31, 2005, the Company had entered into fuels product margin (crack spread) collar contracts with counterparties whereby the Company purchased a crack spread put option while simultaneously selling a crack spread call option. These crack spread collar contracts required no net premium to be paid by the Company to the counterparties as the premium for the purchased crack spread put option is offset by the premium for the sold crack spread call option. These contracts were not designated as hedges under SFAS 133. The Company had no fuels product margin collar contracts outstanding at December 31, 2006.

Fuels product margin collar contracts consisted of the following at December 31, 2005:

Crack Spread Collar Contracts by Expiration Dates	Barrels	BPD	Put Option Strike Price (\$/Bbl)	Call Option Strike Price (\$/Bbl)
First Quarter 2006	675,000	7,500	\$ 7.29	\$ 9.62
Second Quarter 2006	680,000	7,473	7.82	10.15
Third Quarter 2006	685,000	7,446	7.59	9.59
Fourth Quarter 2006	685,000	7,446	6.30	8.30
Totals	2,725,000			
Average price			\$ 7.25	\$ 9.41

Natural Gas Swap Contracts

The Company utilizes forward swap contracts to manage natural gas price risk and volatility of cash flows. These swap contracts are designated as cash flow hedges of the future purchase of natural gas. The Company's policy is

generally to enter into natural gas derivative contracts to hedge approximately 50% or more of its upcoming fall and winter months' anticipated natural gas requirements. At December 31, 2006, the Company had the following derivatives related to natural gas purchases.

Natural Gas Swap Contracts by Expiration Dates	MMbtu	\$/MMbtu
First Quarter 2007	600,000	\$ 8.87
Third Quarter 2007	100,000	\$ 7.99
Fourth Quarter 2007	150,000	