

Calumet Specialty Products Partners, L.P.

Form S-1

June 14, 2006

Table of Contents

**As filed with the Securities and Exchange Commission on June 14, 2006**

**Registration No. 333-**

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

**Form S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

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

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

**2911**  
*(Primary Standard Industrial  
Classification Code Number)*

**37-1516132**  
*(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)*

**R. Patrick Murray, II  
2780 Waterfront Pkwy E. Drive  
Suite 200  
Indianapolis, Indiana 46214  
(317) 328-5660**

*(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)*

***Copies to:***

**David Oelman  
Vinson & Elkins L.L.P.  
1001 Fannin Street, Suite 2300  
Houston, Texas 77002  
(713) 758-2222**

**Joshua Davidson  
Timothy S. Taylor  
Baker Botts L.L.P.  
910 Louisiana Street  
Houston, Texas 77002  
(713) 229-1234**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

### CALCULATION OF REGISTRATION FEE

Title of Class of Securities to Be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common units representing limited partner interests	4,600,000 common units	\$34.41	\$158,286,000	\$16,937

(1) Includes 600,000 common units which may be sold upon exercise of the underwriters' option to purchase additional units.

(2) Calculated in accordance with Rule 457(c) on the basis of the average of the high and low sales price of the common units on June 8, 2006.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to completion. Dated June 14, 2006**

**PROSPECTUS**

**4,000,000 Common Units  
Calumet Specialty Products Partners, L.P.  
Representing Limited Partner Interests**

Calumet Specialty Products Partners, L.P. is offering 4,000,000 common units representing limited partner interests.

The common units are traded on the NASDAQ National Market under the symbol CLMT. On June 8, 2006, the last reported sale price of the common units on the NASDAQ National Market was \$35.52 per common unit.

*See Risk Factors on page 15 to read about factors you should consider before buying the common units.*

These risks include the following:

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

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

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

Our asset reconfiguration and enhancement initiatives, including the major expansion project currently underway at our Shreveport refinery may not result in revenue or cash flow increases, may be subject to 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 depend on certain key crude oil gatherers for a significant portion of our supply of crude oil.

Our general partner and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to your detriment.

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

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

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

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

	<b>Per Common Unit</b>	<b>Total</b>
Initial price to public	\$	\$

Underwriting discount	\$	\$
Proceeds, before expenses to Calumet Specialty Products Partners, L.P.	\$	\$

To the extent that the underwriters sell more than 4,000,000 common units, the underwriters have the option to purchase up to an additional 600,000 common units at the initial price to the public less the underwriting discount.

The underwriters expect to deliver the common units against payment in New York, New York on \_\_\_\_\_, 2006.

**Goldman, Sachs & Co.**

Prospectus dated \_\_\_\_\_, 2006.

---

**Table of Contents**

---

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>SUMMARY</b>	1
<u>Calumet Specialty Products Partners, L.P.</u>	1
<u>Business Strategies</u>	2
<u>Competitive Strengths</u>	2
<u>Shreveport Refinery Expansion</u>	2
<u>Risk Factors</u>	3
<u>Partnership Structure</u>	3
<u>Holding Company Structure</u>	3
<u>Organizational Structure</u>	4
<u>Management and Ownership of Calumet Specialty Products Partners, L.P.</u>	5
<u>Principal Executive Offices and Internet Address</u>	5
<u>Summary of Conflicts of Interest and Fiduciary Duties</u>	5
<u>The Offering</u>	6
<u>Summary Historical and Pro Forma Financial and Operating Data</u>	10
<u>Non-GAAP Financial Measures</u>	12
<b>RISK FACTORS</b>	15
<u>Risks Related to Our Business</u>	15
<u>Risks Inherent in an Investment in Us</u>	25
<u>Tax Risks to Common Unitholders</u>	30
<b>USE OF PROCEEDS</b>	34
<b>CAPITALIZATION</b>	35
<b>PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS</b>	36
<b>HOW WE MAKE CASH DISTRIBUTIONS</b>	37
<u>Distributions of Available Cash</u>	37
<u>Operating Surplus and Capital Surplus</u>	38
<u>Subordination Period</u>	39
<u>Distributions of Available Cash from Operating Surplus During the Subordination Period</u>	40
<u>Distributions of Available Cash from Operating Surplus After the Subordination Period</u>	40
<u>Incentive Distribution Rights</u>	40
<u>Percentage Allocations of Available Cash from Operating Surplus</u>	41
<u>Distributions from Capital Surplus</u>	41
<u>Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels</u>	42
<u>Distributions of Cash Upon Liquidation</u>	43
<b>SELECTED HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA</b>	45
<u>Non-GAAP Financial Measures</u>	47
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b>	50
<u>Overview</u>	50
<u>Results of Operations</u>	52
<u>Liquidity and Capital Resources</u>	62
<u>Critical Accounting Policies and Estimates</u>	67
<u>Derivatives</u>	68
<u>Recent Accounting Pronouncements</u>	69
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	69
<b>INDUSTRY OVERVIEW</b>	74

Specialty Products

74

Fuel Products

75



**Table of Contents**

	<b>Page</b>
<b><u>BUSINESS</u></b>	77
<u>Overview</u>	77
<u>Business Strategies</u>	80
<u>Competitive Strengths</u>	81
<u>Our Operating Assets</u>	81
<u>Crude Oil and Feedstock Supply</u>	87
<u>Markets and Customers</u>	87
<u>Safety and Maintenance</u>	90
<u>Competition</u>	90
<u>Environmental Matters</u>	91
<u>Insurance</u>	94
<u>Title to Properties</u>	94
<u>Office Facilities</u>	94
<u>Employees</u>	94
<u>Legal Proceedings</u>	94
<b><u>MANAGEMENT</u></b>	95
<u>Management of Calumet Specialty Products Partners, L.P.</u>	95
<u>Directors and Executive Officers</u>	96
<u>Reimbursement of Expenses of Our General Partner</u>	97
<u>Executive Compensation</u>	98
<u>Compensation of Directors</u>	98
<u>Long-Term Incentive Plan</u>	98
<u>Employment Agreement</u>	100
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u></b>	101
<b><u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u></b>	103
<u>Distributions and Payments to Our General Partner and its Affiliates</u>	103
<u>Omnibus Agreement</u>	104
<u>Administrative and Other Services</u>	104
<u>Indemnification of Directors and Officers</u>	105
<u>Credit Facility with and Guarantees by The Heritage Group</u>	105
<u>Sales to Bareco Joint Venture</u>	105
<u>Transactions with Director</u>	105
<u>Crude Oil Purchases</u>	106
<b><u>CONFLICTS OF INTEREST AND FIDUCIARY DUTIES</u></b>	107
<u>Conflicts of Interest</u>	107
<u>Fiduciary Duties</u>	110
<b><u>DESCRIPTION OF THE COMMON UNITS</u></b>	113
<u>The Units</u>	113
<u>Transfer Agent and Registrar</u>	113
<u>Transfer of Common Units</u>	113

**Table of Contents**

	<b>Page</b>
<b><u>THE PARTNERSHIP AGREEMENT</u></b>	115
<u>Organization and Duration</u>	115
<u>Purpose</u>	115
<u>Power of Attorney</u>	115
<u>Capital Contributions</u>	115
<u>Voting Rights</u>	116
<u>Limited Liability</u>	117
<u>Issuance of Additional Securities</u>	118
<u>Amendment of the Partnership Agreement</u>	119
<u>Merger, Sale or Other Disposition of Assets</u>	121
<u>Termination and Dissolution</u>	122
<u>Liquidation and Distribution of Proceeds</u>	122
<u>Withdrawal or Removal of the General Partner</u>	122
<u>Transfer of General Partner Interest</u>	124
<u>Transfer of Ownership Interests in Our General Partner</u>	124
<u>Transfer of Incentive Distribution Rights</u>	124
<u>Change of Management Provisions</u>	124
<u>Limited Call Right</u>	125
<u>Meetings: Voting</u>	125
<u>Status as Limited Partner</u>	126
<u>Non-Citizen Transferees</u>	126
<u>Indemnification</u>	126
<u>Reimbursement of Expenses</u>	127
<u>Books and Reports</u>	127
<u>Right to Inspect Our Books and Records</u>	127
<u>Registration Rights</u>	128
<b><u>UNITS ELIGIBLE FOR FUTURE SALE</u></b>	129
<b><u>MATERIAL TAX CONSEQUENCES</u></b>	130
<u>Partnership Status</u>	130
<u>Limited Partner Status</u>	132
<u>Tax Consequences of Unit Ownership</u>	132
<u>Tax Treatment of Operations</u>	137
<u>Disposition of Common Units</u>	138
<u>Uniformity of Units</u>	140
<u>Tax-Exempt Organizations and Other Investors</u>	141
<u>Administrative Matters</u>	141
<u>State, Local, Foreign and Other Tax Considerations</u>	144
<b><u>INVESTMENT IN CALUMET SPECIALTY PRODUCTS PARTNERS, L.P. BY EMPLOYEE</u></b>	
<b><u>BENEFIT PLANS</u></b>	145
<b><u>UNDERWRITING</u></b>	146
<b><u>VALIDITY OF THE COMMON UNITS</u></b>	148
<b><u>EXPERTS</u></b>	148
<b><u>WHERE YOU CAN FIND MORE INFORMATION</u></b>	148
<b><u>FORWARD-LOOKING STATEMENTS</u></b>	149
<b><u>INDEX TO FINANCIAL STATEMENTS</u></b>	F-1

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

**Table of Contents**

References in this prospectus to Calumet, the Partnership, we, our, us or like terms when used in present tense, prospectively or for historical periods since January 31, 2006, refer to Calumet Specialty Products Partners, L.P. and its subsidiaries. References to Calumet Predecessor, or to we, our, us or like terms for historical periods prior to January 31, 2006, refer to Calumet Lubricants Co., Limited Partnership and its subsidiaries, which were contributed to us at the closing of our initial public offering on January 31, 2006. The results of operations for the quarter ended March 31, 2006 for Calumet include the results of operations of Calumet Predecessor for the period of January 1, 2006 through January 31, 2006. References in this prospectus to our general partner refer to Calumet GP, LLC.

**Table of Contents**

**SUMMARY**

*This summary provides a brief overview of information contained elsewhere in this prospectus. Because it is abbreviated, this summary does not contain all of the information that you should consider before investing in the common units. You should read the entire prospectus carefully, including the historical and pro forma financial statements and the notes to those financial statements. The information presented in this prospectus assumes that the underwriters' option to purchase additional common units is not exercised. You should read "Risk Factors" beginning on page 15 for more information about important risks that you should consider carefully before buying our common units. We include a glossary of some of the terms used in this prospectus as Appendix A.*

**Calumet Specialty Products Partners, L.P.**

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 fuel 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, 2005 and the three months ended March 31, 2006, approximately 52.2% and 72.7%, respectively, of our gross profit was generated from our specialty products segment and approximately 47.8% and 27.3%, respectively, of our gross profit was generated from our fuel products segment.

Our operating assets consist of our:

*Princeton Refinery.* Our Princeton refinery, with an aggregate crude oil throughput capacity of approximately 10,000 barrels per day ( bpd ) and located in northwest Louisiana, 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.

*Cotton Valley Refinery.* Our Cotton Valley refinery, with an aggregate crude oil throughput capacity of approximately 13,500 bpd and located in northwest Louisiana, produces specialty solvents that are used principally in the manufacture of paints, cleaners and automotive products.

*Shreveport Refinery.* Our Shreveport refinery, with an aggregate current crude oil throughput capacity of approximately 42,000 bpd and located in northwest Louisiana, produces specialty lubricating oils and waxes, as well as fuel products such as gasoline, diesel fuel and jet fuel. In the second quarter of 2006, we began processing 5,000 bpd of sour crude oil utilizing existing permitted capacity at our Shreveport refinery. We have commenced a major expansion project, 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.

*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 our products 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.

**Table of Contents**

**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.*

*Develop and expand our customer relationships.*

*Enhance profitability of our existing assets.*

*Pursue strategic and complementary acquisitions.*

**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 have strong relationships with a broad customer base.*

*Our refineries have advanced technology.*

*We have an experienced management team.*

**Shreveport Refinery Expansion**

We have commenced a major 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. Upon completion of the project and on a combined basis, our production of specialty lubricating oils and waxes at the Shreveport refinery is anticipated to increase by approximately 75% over first quarter 2006 levels and our production of fuel products at the Shreveport refinery is anticipated to increase by approximately 30% over first quarter 2006 levels.

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 process approximately 42,000 bpd of sweet crude oil and 13,000 bpd of sour crude oil, with the remainder coming from interplant feedstocks. Our ability to process significant amounts of sour crude oil enhances our competitive position in the industry relative to refiners that process primarily sweet crude oil because sour crude oil typically can be purchased at a discount to sweet crude oil.

Subject to normal contingencies, we anticipate incurring approximately \$60 million in capital expenditures related to the expansion project during 2006 and approximately \$50 million related to the expansion project in 2007. We expect that our expansion project will be accretive on a per unit basis upon its completion.

**Table of Contents**

**Risk Factors**

An investment in our common units involves risks associated with our business, regulatory and legal matters, our limited partnership structure and the tax characteristics of our common units. Please carefully read Risk Factors immediately following this Summary beginning on page 15.

**Partnership Structure**

We are a Delaware limited partnership formed in September 2005 to acquire, own and operate the assets that were historically owned by Calumet Lubricants Co., Limited Partnership.

Upon the completion of this offering:

The Heritage Group, a privately-owned general partnership that invests in a variety of industrial companies, the Fred M. Fehsenfeld, Jr. and F. William Grube families or trusts set up on their behalf, and certain of their affiliates will own 5,761,015 common units and 13,066,000 subordinated units, representing a 61.2% limited partner interest in us;

Our general partner, Calumet GP, LLC, will continue to own a 2% general partner interest in us and all of our incentive distribution rights, which entitles our general partner to increasing percentages of the cash we distribute in excess of \$0.495 per unit per quarter; and

Our public unitholders will own 11,304,985 common units, representing a 36.8% limited partner interest in us.

The principal difference between our common units and subordinated units is that, in any quarter during the subordination period, holders of the subordinated units are entitled to receive the minimum quarterly distribution of \$0.45 per unit only after the common units have received the minimum quarterly distribution plus arrearages from prior quarters. Subordinated units will not accrue arrearages. The subordination period will end if we meet the financial tests in our partnership agreement, but it generally cannot end before December 31, 2010. Please read The Offering for a description of the subordination period.

**Holding Company Structure**

As is common with publicly traded limited partnerships and in order to maximize operational flexibility, we conduct our operations through subsidiaries. In order to be treated as a partnership for federal income tax purposes, we must generate 90% or more of our gross income from certain qualifying sources, such as the refining of crude oil and other feedstocks and the marketing of finished petroleum products. However, the income derived from the marketing of these products to certain end-users, such as governmental entities and airlines, is not considered qualifying income for federal income tax purposes. As a result, we market products to these non-qualifying end-users through Calumet Sales Company Incorporated, a corporate subsidiary of our operating company, Calumet Operating, LLC. Income from activities conducted by our corporate subsidiary are taxed at the applicable corporate income tax rate. Dividends received by us from our corporate subsidiary constitute qualifying income. For a more complete description of this qualifying income requirement, please read Material Tax Consequences Partnership Status.

The following diagram depicts our organization and ownership after giving effect to the offering.

**Table of Contents**

**Organizational Structure**

Ownership of Calumet Specialty Products Partners, L.P.	
Public Common Units	36.8%
Common Units owned by Affiliates of our General Partner	18.7%
Subordinated Units owned by Affiliates of our General Partner	42.5%
General Partner Interest	2.0%
Total	100%



**Table of Contents**

**Management and Ownership of Calumet Specialty Products Partners, L.P.**

Calumet GP, LLC, our general partner, has sole responsibility for conducting our business and for managing our operations. The Heritage Group and the Fred M. Fehsenfeld, Jr. and F. William Grube families and their family trusts own our general partner. For information about the executive officers and directors of our general partner, please read **Management Directors and Executive Officers**. Our general partner does not receive any management fee or other compensation in connection with its management of our business but is entitled to be reimbursed for all direct and indirect expenses incurred on our behalf. Our general partner is also entitled to distributions on its general partner interest and, if specified requirements are met, on its incentive distribution rights. Please read **Certain Relationships and Related Party Transactions and Management**.

Neither our general partner nor the board of directors of our general partner is elected by our unitholders. Unlike shareholders in a publicly traded corporation, our unitholders are not entitled to elect the directors of our general partner.

**Principal Executive Offices and Internet Address**

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 our periodic reports and other information filed with or furnished to the Securities and Exchange Commission, or SEC, available, free of charge, through our website, as soon as reasonably practicable. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

**Summary of Conflicts of Interest and Fiduciary Duties**

Calumet GP, LLC, our general partner, has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. The officers and directors of our general partner also have fiduciary duties to manage our general partner in a manner beneficial to its owners. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates on the other hand. For a more detailed description of the conflicts of interest and fiduciary duties of our general partner, please read **Conflicts of Interest and Fiduciary Duties**.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to our unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute a breach of our general partner's fiduciary duties owed to unitholders. By purchasing a common unit, you are treated as having consented to various actions contemplated in our partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law. Please read **Conflicts of Interest and Fiduciary Duties** **Fiduciary Duties** for a description of the fiduciary duties imposed on our general partner by Delaware law, the material modifications of these duties contained in our partnership agreement and certain legal rights and remedies available to unitholders.

**Table of Contents**

**The Offering**

Common units offered	<p>4,000,000 common units.</p> <p>4,600,000 common units, if the underwriters exercise their option to purchase additional units in full.</p>
Units outstanding after this offering	<p>17,066,000 common units, representing a 55.5% limited partner interest in us, and 13,066,000 subordinated units, representing a 42.5% limited partner interest in us.</p> <p>17,666,000 common units, representing a 56.3% limited partner interest, and 13,066,000 subordinated units, representing a 41.7% limited partner interest in us, if the underwriters exercise their option to purchase additional units in full.</p>
Use of proceeds	<p>We intend to use the estimated net proceeds of approximately \$135.0 million from this offering, after deducting underwriting discounts, commissions and fees, and estimated offering expenses of approximately \$1.0 million, to:</p> <ul style="list-style-type: none"><li>repay all of our borrowings outstanding under our revolving credit facility, which were \$14.8 million as of March 31, 2006;</li><li>fund the construction and other start-up costs of the expansion project currently underway at our Shreveport refinery; and</li><li>for general partnership purposes, to the extent available.</li></ul> <p>If the underwriters exercise their option to purchase additional units, we will use the additional net proceeds for general partnership purposes, to the extent available.</p>
Cash distributions	<p>We paid a prorated quarterly cash distribution of \$0.30 per unit for the first quarter of 2006, or \$1.80 per unit on an annualized and un-prorated basis, on May 15, 2006 to unitholders of record as of May 2, 2006. This distribution was for the period from January 31, 2006, the date of the closing of our initial public offering, through the end of the first quarter.</p> <p>Within 45 days after the end of each quarter, we distribute our available cash to unitholders of record on the applicable record date.</p> <p>In general, we will pay any cash distributions we make each quarter in the following manner:</p> <ul style="list-style-type: none"><li>first, 98% to the holders of common units, pro rata, and 2% to our general partner, until each common unit has received a minimum quarterly distribution of \$0.45 plus any arrearages from prior quarters;</li></ul>

second, 98% to the holders of subordinated units, pro rata, and 2% to our general partner, until each subordinated unit

**Table of Contents**

has received a minimum quarterly distribution of \$0.45; and

third, 98% to all unitholders, pro rata, and 2% to our general partner, until each unit has received a distribution of \$0.495.

If cash distributions to our unitholders exceed \$0.495 per common unit in any quarter, our general partner will receive increasing percentages, up to 50%, of the cash we distribute in excess of that amount. We refer to the amount of these distributions in excess of the 2% general partner interest as incentive distributions. Please read [How We Make Cash Distributions Incentive Distribution Rights](#).

We must distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner. We refer to this cash as available cash, and we define its meaning in our partnership agreement, in [How We Make Cash Distributions Distributions of Available Cash Definition of Available Cash](#) and in the glossary of terms attached as Appendix A. The amount of available cash may be greater than or less than the minimum quarterly distribution to be distributed on all units.

Subordination period

During the subordination period, 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 from prior quarters, before any distributions may be made on the subordinated units. 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:

(1) 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 all such units for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

(2) the adjusted operating surplus 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

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

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages.

**Table of Contents**

Issuance of additional units	<p>In general, during the subordination period, we may issue up to 6,533,000 additional common units without obtaining unitholder approval. We can also issue an unlimited number of common units in connection with acquisitions and capital improvements that increase cash flow from operations per unit on an estimated pro forma basis. We can also issue additional common units if the proceeds are used to repay certain of our indebtedness.</p> <p>Until the time that our Shreveport refinery expansion project is put into commercial service, the common units to be issued in connection with this offering will be deemed to constitute a portion of the up to 6,533,000 common units we are permitted to issue during the subordination period without obtaining unitholder approval and will reduce the number of additional common units we may issue in the future without obtaining unitholder approval accordingly. However, we anticipate that our Shreveport refinery expansion project will increase cash flow from operations per unit upon its completion. If this occurs, the common units we issue in this offering that are used to pay for such expansion project will be added back to the number of additional common units we may issue in the future without unitholder approval.</p> <p>Please read <a href="#">Units Eligible for Future Sale</a> and <a href="#">The Partnership Agreement Issuance of Additional Securities</a>.</p>
Limited voting rights	<p>Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or its directors on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66<sup>2</sup>/<sub>3</sub> % of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon consummation of this offering, the owners of our general partner and certain of their affiliates will own an aggregate of 62.5% of our common and subordinated units. This will give our general partner the practical ability to prevent its involuntary removal. Please read <a href="#">The Partnership Agreement Voting Rights</a>.</p>
Limited call right	<p>If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.</p>
Estimated ratio of taxable income to distributions	<p>We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2008, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 20% or less of the cash distributed to you with respect to that period. For example, if you receive</p>

**Table of Contents**

an annual distribution of \$1.80 per unit, we estimate that your average allocable federal taxable income per year will be no more than \$0.36 per unit. Please read [Material Tax Consequences](#) [Tax Consequences of Unit Ownership](#) [Ratio of Taxable Income to Distributions](#).

Material tax consequences For a discussion of other material federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States, please read [Material Tax Consequences](#).

Trading Our common units are traded on the NASDAQ National Market under the symbol CLMT.

**Table of Contents**

**Summary Historical and Pro Forma Financial and Operating Data**

The following table shows summary historical financial and operating data of Calumet Lubricants Co., Limited Partnership ( Calumet Predecessor ) and pro forma financial data of Calumet Specialty Products Partners, L.P. ( Calumet ) for the periods and as of the dates indicated. The summary historical financial data as of December 31, 2003, 2004 and 2005 and March 31, 2005 and for the years ended December 31, 2003, 2004 and 2005 and the three months ended March 31, 2005 are derived from the consolidated financial statements of Calumet Predecessor. The summary financial data as of and for the three months ended March 31, 2006, are derived from the consolidated financial statements of Calumet. The results of operations for the three months ended March 31, 2006 for Calumet include the results of operations of Calumet Predecessor for the period of January 1, 2006 through January 31, 2006. The summary pro forma financial data as of March 31, 2006, and for the year ended December 31, 2005 and the three months ended March 31, 2006 are derived from the unaudited pro forma financial statements of Calumet. The pro forma adjustments have been prepared as if the transactions listed below had taken place on March 31, 2006, in the case of the pro forma balance sheet, or as of January 1, 2005, in the case of the pro forma statement of operations for the three months ended March 31, 2006 and for the year ended December 31, 2005. The pro forma financial data give pro forma effect to:

this offering of common units, our general partner's proportionate capital contribution and our application of the proceeds, net of estimated underwriting commissions and other offering expenses, therefrom;

our initial public offering of common units, our application of the net proceeds therefrom and the formation transactions related to our partnership; and

the refinancing by Calumet Predecessor of its long-term debt obligations pursuant to new credit facilities it entered into in December 2005.

None of the assets or liabilities of Calumet 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 in connection with the closing of our 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 cash flow from 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 and pro forma combined financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents**

	Calumet Predecessor			Calumet Predecessor Calumet		Calumet Pro Forma	
	Year Ended			Three Months		Year	
	December 31,			Ended		Ended	
	2003	2004	2005	2005	2006	2005	2006
	December 31, March 31, December 31, March 31,						
(In thousands, except per unit data)							
<b>Summary of Operations Data:</b>							
Sales	\$ 430,381	\$ 539,616	\$ 1,289,072	\$ 229,549	\$ 397,694	\$ 1,289,072	\$ 397,694
Cost of sales	385,890	501,284	1,148,715	203,432	346,744	1,148,715	346,744
Gross profit	44,491	38,332	140,357	26,117	50,950	140,357	50,950
Operating costs and expenses:							
Selling, general and administrative	9,432	13,133	22,126	3,392	4,929	22,126	4,929
Transportation	28,139	33,923	46,849	10,723	13,907	46,849	13,907
Taxes other than income	2,419	2,309	2,493	732	914	2,493	914
Other	905	839	871	157	115	871	115
Restructuring, decommissioning and asset impairments(1)	6,694	317	2,333	368		2,333	
Total operating income (loss)	(3,098)	(12,189)	65,685	10,745	31,085	65,685	31,085
Other income (expense):							
Equity in income (loss) of unconsolidated affiliates	867	(427)					
Interest expense	(9,493)	(9,869)	(22,961)	(4,864)	(3,976)	(8,542)	(2,011)
Debt extinguishment			(6,882)		(2,967)	(6,882)	(2,967)



<b>costs</b>							
Realized gain (loss) on derivative instruments	(961)	39,160	2,830	(6,651)	(3,080)	2,830	(3,080)
Unrealized gain (loss) on derivative instruments	7,228	(7,788)	(27,586)	603	(17,715)	(27,586)	(17,715)
Other	32	83	242	39	199	242	199
<b>Total other income (expense)</b>	<b>(2,327)</b>	<b>21,159</b>	<b>(54,357)</b>	<b>(10,873)</b>	<b>(27,539)</b>	<b>(39,938)</b>	<b>(25,574)</b>
Net income (loss) before income taxes	(5,425)	8,970	11,328	(128)	3,546	25,747	5,511
Income tax expense					14	90	14
Net income (loss)	\$ (5,425)	\$ 8,970	\$ 11,328	\$ (128)	\$ 3,532	\$ 25,657	\$ 5,497
<b>Basic and diluted pro forma net income per limited partner unit:</b>							
Common					\$ 0.30	\$ 2.43	\$ 0.45
Subordinated					\$ (0.36)	\$ (2.03)	\$ (0.18)
<b>Weighted average units:</b>							
Common					12,950	17,066	17,066
Subordinated					13,066	13,066	13,066
<b>Balance Sheet Data (at period end):</b>							
Property, plant and equipment, net	\$ 89,938	\$ 126,585	\$ 127,846	\$ 131,194	\$ 127,674		\$ 127,674
Total assets	216,941	318,206	399,717	327,961	349,459		472,650
Accounts payable	32,263	58,027	44,759	28,053	52,216		52,216
Long-term debt	146,853	214,069	267,985	251,376	64,626		49,875
Partners capital	25,544	34,514	39,054	34,385	169,180		307,122
<b>Cash Flow Data:</b>							

Net cash flow  
provided by  
(used in):

Operating activities	\$ 7,048	\$ (612)	\$ (34,001)	\$ (48,005)	\$ 60,115
Investing activities	(11,940)	(42,930)	(12,903)	(6,933)	(2,921)
Financing activities	4,884	61,561	40,990	37,306	(69,282)

**Other Financial  
Data:**

EBITDA	\$ 10,837	\$ 25,766	\$ 51,557	\$ 7,532	\$ 13,162	\$ 51,557	\$ 13,162
Adjusted EBITDA	6,110	34,711	85,821	8,718	26,110	85,821	26,110

**Operating Data  
(bpd):**

Total sales volume(2)	23,616	24,658	46,953	38,418	52,090
Total feedstock runs(3)	25,007	26,205	50,213	42,059	52,370
Total refinery production(4)	25,204	26,297	48,331	40,343	50,585

- (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 us in connection with 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 is primarily a result of the time lag between the input of feedstock and production of end products and volume loss.

**Table of Contents**

**Non-GAAP Financial Measures**

We include in this prospectus the non-GAAP financial measures EBITDA and Adjusted EBITDA, and provide reconciliations of EBITDA and Adjusted EBITDA to net income and cash flow from 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 and support our indebtedness;

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.

We define EBITDA as net income plus interest expense, 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 impairment 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, cash flow from 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 tables present a reconciliation of EBITDA and Adjusted

**Table of Contents**

EBITDA to net income and cash flow from operating activities, our most directly comparable GAAP financial performance and liquidity measures, for each of the periods indicated:

	Calumet Predecessor 5,2			Calumet		Calumet Pro Forma	
	Three M			onths		Three	
	Year Ended December 31,			End	ed	Year	Months
	2003	2004	2005	March	31,	Ended	Ended
				2005	2006	December 31,	March 31,
						2005	2006
(In thousands)							
<b>Reconciliation of Adjusted EBITDA and EBITDA to net income (loss):</b>							
Net income (loss)	\$ (5,425)	\$ 8,970	\$ 11,328	\$ (128)	\$ 3,532	\$ 25,657	\$ 5,497
Add:							
Interest expense and debt extinguishment costs	9,493	9,869	29,843	4,864	6,943	15,424	4,978
Depreciation and amortization	6,769	6,927	10,386	2,796	2,673	10,386	2,673
Income tax expense					14	90	14
<b>EBITDA</b>	<b>\$ 10,837</b>	<b>\$ 25,766</b>	<b>\$ 51,557</b>	<b>\$ 7,532</b>	<b>\$ 13,162</b>	<b>\$ 51,557</b>	<b>\$ 13,162</b>
Add:							
Unrealized loss (gain) from mark to market accounting for hedging activities	\$ (7,228)	\$ 7,788	\$ 27,586	\$ (603)	\$ 17,715	\$ 27,586	\$ 17,715
Non-cash impact of restructuring, decommissioning and asset impairments	2,250	(1,276)	1,766	368		1,766	
Prepaid non-recurring expenses and accrued non-recurring expenses, net of cash outlays	251	2,433	4,912	1,421	(4,767)	4,912	(4,767)
<b>Adjusted EBITDA</b>	<b>\$ 6,110</b>	<b>\$ 34,711</b>	<b>\$ 85,821</b>	<b>\$ 8,718</b>	<b>\$ 26,110</b>	<b>\$ 85,821</b>	<b>\$ 26,110</b>



**Table of Contents**

	Calumet Predecessor			Calumet	
	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	(In thousands)				
<b>Reconciliation of Adjusted EBITDA and EBITDA to net cash provided (used) by operating activities:</b>					
Net cash provided (used) by operating activities	\$ 7,048	\$ (612)	\$ (34,001)	\$ (48,005)	\$ 60,115
Add:					
Interest expense and debt extinguishment costs	9,493	9,869	29,843	4,864	6,943
Income taxes					14
Restructuring charge	(874)		(1,693)		
Provision for doubtful accounts	(12)	(216)	(294)	(50)	(127)
Equity in (loss) income of unconsolidated affiliates	867	(427)			
Dividends received from unconsolidated affiliates	(750)	(3,470)			
Debt extinguishment costs			(4,173)		(2,967)
Accounts receivable	4,670	19,399	56,878	22,506	(1,400)
Inventory	(15,547)	20,304	25,441	3,009	(7,313)
Other current assets	563	11,596	(569)	5,117	(16,471)
Derivative activity	6,265	(5,046)	(31,101)	(6,305)	(18,694)
Accounts payable	1,809	(25,764)	13,268	29,974	(7,457)
Accrued liabilities	(1,379)	(1,203)	(5,874)	(2,551)	4,933
Other, including changes in noncurrent assets and liabilities	(1,316)	1,336	3,832	(1,027)	(4,414)
EBITDA	\$ 10,837	\$ 25,766	\$ 51,557	\$ 7,532	\$ 13,162
Add:					
Unrealized loss (gain) from mark to market accounting for hedging activities	\$ (7,228)	\$ 7,788	\$ 27,586	\$ (603)	\$ 17,715
Non-cash impact of restructuring, decommissioning and asset impairments	2,250	(1,276)	1,766	368	
Prepaid non-recurring expenses and accrued non-recurring expenses, net of cash outlays	251	2,433	4,912	1,421	(4,767)
Adjusted EBITDA	\$ 6,110	\$ 34,711	\$ 85,821	\$ 8,718	\$ 26,110



**Table of Contents**

**RISK FACTORS**

*Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should consider carefully the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.*

*The following risks could materially and adversely affect our business, financial condition or results of operations. In that case, we might not be able to pay the minimum quarterly distribution on our common units, the trading price of our common units could decline and you could lose all or part of your investment.*

**Risks 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, fuels 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

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;

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





**Table of Contents**

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

You 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 averaged \$3.04 per barrel between 1990 and 1999, \$4.61 per barrel between 2000 and 2004, \$6.52 per barrel in the first quarter of 2005, \$9.10 per barrel in the second quarter of 2005, \$17.07 per barrel in the third quarter of 2005, \$9.81 per barrel in the fourth quarter of 2005, and \$8.68 in the first quarter of 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, you 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. Please read [Industry Overview](#) [Fuel Products](#).

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.

***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

**Table of Contents**

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 \$4.57 and \$8.75 per million British thermal units, or MMBtu, in 2004, between \$5.79 and \$15.39 per MMBtu in 2005 and between \$6.54 and \$10.62 per MMBtu in the first quarter of 2006. 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 45.6% and 45.8% of our total operating expenses included in cost of sales for the year ended December 31, 2005 and the three months ended March 31, 2006, 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 with the intent of reducing volatility in our cash flows due to fluctuations in these prices or interest rates. We are not able to enter into derivative instruments to reduce the volatility of the sales prices of the specialty hydrocarbon products we sell as there is no established derivative market for such products.

Historically, we have 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 fair value of derivatives which have not been designated as hedges are to be recorded in earnings as reflected in unrealized gain (loss) on derivative instruments. For derivatives designated as cash flow hedges, the change in fair value of these derivatives is reflected in other comprehensive income. For the years ended December 31, 2003, 2004 and 2005, these unrealized gains (losses) were \$7,228,000, \$(7,788,000) and \$(27,586,000), respectively. For the three months ended March 31, 2005 and 2006, these unrealized gains (losses) were \$603,000 and \$(17,715,000), 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.

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 from the actual crude oil prices, natural gas prices or crack spreads that we realize in our operations. Furthermore, we have a policy to enter into derivative transactions related to only a portion of the volume of our expected production or fuel requirements and, as a result, we will continue to have direct commodity price exposure to the unhedged portion. Our actual future production or fuel requirements may be significantly higher or lower than we estimate 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 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 and our cash distributions to unitholders may be reduced. Please read Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk.

***Our asset reconfiguration and enhancement initiatives, including the major expansion project currently underway 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 through the reconfiguration and enhancement of our refinery assets. As a specific current example, we have commenced a major expansion project at our

**Table of Contents**

Shreveport refinery to increase throughput capacity and crude oil processing flexibility that we expect to complete in the third quarter of 2007. The construction of additions or modifications to our existing refineries involves numerous regulatory, environmental, political, legal and economic uncertainties beyond our control and could require the expenditure of significant amounts of capital, which we may finance with additional indebtedness or by issuing additional equity securities. As we undertake these projects, they may not be completed at the budgeted cost, on schedule or at all. For example, we currently anticipate that our expansion project at our Shreveport refinery will cost approximately \$110 million to complete, but we do not expect to complete this project until the third quarter of 2007, and we may suffer significant delays to the expected completion date or significant cost overruns as a result of a variety of factors, such as shortages of workers or materials, transportation constraints, adverse weather, unforeseen difficulties or labor issues. In addition, construction to expand 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 projects are completed, or at all.

***If our general financial condition deteriorates, we may be limited in our ability to obtain credit with counterparties and 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 obtain unsecured credit lines or 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 fuel products. We also rely on our ability to obtain unsecured credit lines or issue letters of credit to support the purchase of crude oil feedstocks for our refineries. If, due to our financial condition or other reasons, we are limited in our ability or unable to obtain unsecured credit lines or issue letters of credit, 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 three months ended March 31, 2006, Plains All American Pipeline, L.P. and Koch Supply and Trading, LP supplied us with approximately 49.7% and 27.1%, respectively, of our total crude oil supplies. Each of our refineries 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 and type of crude oil. We do not maintain long-term contracts with most of our suppliers. Please read Business 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.



**Table of Contents**

***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.***

Each of our refineries 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 ExxonMobil Corporation. 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 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 product 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 reduction in our cash flow, 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 gasoline and other fuel products;

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

- an increase in the market price of gasoline and other fuel products, which may reduce demand for gasoline and other 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 expected. A successful claim or series of claims against us

**Table of Contents**

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 Louisiana Department of Environmental Quality ( 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 significant 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. Please read Business Environmental Matters Air.

***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 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, our assets they contributed to us. 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. Please read Business Environmental Matters.

**Table of Contents**

***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, suppliers and by counterparties of our forward contracts, options and swap agreements. Some of our customers, suppliers 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 any of these parties 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 you 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 face operating hazards, and the potential limits on insurance coverage could expose us to potentially significant liability costs.***

Our refining activities are conducted at three refineries in northwest Louisiana. These refineries are our principal operating assets. Our operations are subject to significant interruption, and our cash from operations could decline, if any of our refineries 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, 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



**Table of Contents**

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 down time 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.

***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 Occupational Safety and Health Act ( 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.***

After giving effect to this offering, we estimate that our total debt as of the close of this offering will be approximately \$49.8 million, consisting of borrowings under our term loan facility. Additionally, we have a \$50.0 million letter of credit facility to support crack spread hedging. Following this offering, we estimate we will continue to have the ability to incur additional debt, including the capacity to borrow up to approximately \$131.2 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;

**Table of Contents**

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.

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 (8.00% as of June 9, 2006). Borrowings under our term loan facility bear interest at a floating rate (8.78% as of June 9, 2006). The rates are subject to adjustment based on fluctuations in the London Interbank Offered Rate ( LIBOR ) and 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



**Table of Contents**

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.

***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 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 2008, 2007 and 2007, respectively. Please read Business Employees. 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 fuel products segment and the selling price of asphalt we produce and sell can be seasonal and are 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

**Table of Contents**

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**

*Following this offering, the Fred M. Fehsenfeld, Jr. and F. William Grube families or trusts set up on their behalf, The Heritage Group and certain of their affiliates will own a 61.2% limited partner interest in us and will continue to 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 your detriment.*

Following the offering, The Heritage Group, the Fred M. Fehsenfeld, Jr. and F. William Grube families (or trusts set up on their behalf), and certain of their affiliates will own a 61.2% limited partner interest in us. In addition, The Heritage Group and the Fred M. Fehsenfeld, Jr. and F. William Grube families (or trusts set up on their behalf) will continue to 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 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.

Please read **Conflicts of Interest and Fiduciary Duties**.

**Table of Contents**

***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 Certain Relationships and Related Party Transactions Omnibus Agreement.

Although Mr. Grube is prohibited from competing with us pursuant to the terms of the employment agreement we have entered into with him, 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;

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. Please read Conflicts of Interest and Fiduciary Duties Fiduciary Duties.

***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

**Table of Contents**

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 will 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 own sufficient units to be able to prevent its removal. The vote of the holders of at least 66<sup>2</sup>/<sub>3</sub> % of all outstanding units voting together as a single class is required to remove the general partner. Following the closing of this offering, the owners of our general partner and certain of their affiliates will own 62.5% 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 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.

**Table of Contents**

***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 your approval, which would dilute your existing ownership interests.***

During the subordination period, our general partner, without the approval of our unitholders, may also cause us to issue up to 6,533,000 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 set forth under The Partnership Agreement Issuance of Additional Securities.

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.

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

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 you.

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

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.



**Table of Contents**

These expenses will include all costs incurred by our general partner and its affiliates in managing and operating us. Please read **Certain Relationships and Related Party Transactions** and **Conflicts of Interests and Fiduciary Duties** **Conflicts of Interest**.

***Our general partner has a limited call right that may require you to sell your 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, you may be required to sell your common units to our general partner, its affiliates or us at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your common units. At the completion of this offering, our general partner and its affiliates will own approximately 33.8% 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 62.5% of the common units. For additional information about this right, please read **The Partnership Agreement** **Limited Call Right**.

***Your 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. You could be liable for any and all of our obligations as if you 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

your 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.

For a discussion of the implications of the limitations of liability on a unitholder, please read **The Partnership Agreement** **Limited Liability**.

***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 you 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. 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.

**Table of Contents**

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

Our common units are traded publicly on the NASDAQ National Market under the symbol CLMT. However, our common units have a limited trading history and daily trading volumes for our common units are, and may continue to be, relatively small compared to many other units representing limited partner interests quoted on the NASDAQ. This offering may not increase the trading volume for our common units, and the price of our common units may, therefore, 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 these Risk Factors.

**Tax Risks to Common Unitholders**

In addition to reading the following risk factors, you should read Material Tax Consequences for a more complete discussion of the expected material federal income tax consequences of owning and disposing of common units.

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

The anticipated after-tax economic benefit of an investment in our 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 taxable 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 you would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, our cash available for distribution to you would be substantially reduced. Therefore, treatment of us 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.

**Table of Contents**

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 and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, we will be subject to a new entity level tax on the portion of our income that is generated in Texas beginning in our tax year ending in 2007. Specifically, the Texas margin tax will be imposed at a maximum effective rate of .7% of our gross income apportioned to Texas. Imposition of such a tax on us by Texas, or any other state, will reduce the cash available for distribution to you.

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

***If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted, and the cost of any IRS contest will reduce our cash available for distribution to you.***

We have not requested a ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from the conclusions of our counsel expressed in this prospectus or 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 our counsel's conclusions or 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.

***You may be required to pay taxes on your share of our income even if you 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, you will be required to pay any federal income taxes and, in some cases, state and local income taxes on your share of our taxable income even if you receive no cash distributions from us. You may not receive cash distributions from us equal to your share of our taxable income or even equal to the actual tax liability that results from that income.

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

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

**Table of Contents**

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. If you are a tax-exempt entity or a foreign person, you should consult your tax advisor before investing in our common units.

***We will 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 have adopted 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 you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. For a further discussion of the effect of the depreciation and amortization positions we have adopted, please read **Material Tax Consequences – Uniformity of Units.**

***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 reduces the cash available for distribution to us and, in turn, to you. 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 you 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, you 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 you with respect to that period. Please read **Material Tax Consequences – Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions.**

***You will likely be subject to state and local taxes and return filing requirements in states where you do not live as a result of investing in our common units.***

In addition to federal income taxes, you 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 conduct business or own property, even if you do not live in any of those jurisdictions. You 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 various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We own assets and conduct business in Arkansas, California, Connecticut, Florida, Georgia, Indiana, Illinois,

**Table of Contents**

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 conduct business in additional states that impose a personal income tax. It is your responsibility to file all United States federal, foreign, state and local tax returns. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our common units.

**Table of Contents**

**USE OF PROCEEDS**

We expect to receive net proceeds of approximately \$135.0 million from the sale of 4,000,000 common units offered by this prospectus, based on an assumed offering price of \$35.52 per common unit, which was the closing price of our common units on June 8, 2006, after deducting underwriting discounts and commissions and estimated offering expenses of approximately \$1.0 million. Our estimates assume no exercise of the underwriters' option to purchase additional units.

We intend to use all of the proceeds from this offering to:

repay all of our debt outstanding under our revolving credit facility, which was \$14.8 million as of March 31, 2006;

fund the construction and other start-up costs of the expansion project currently underway at our Shreveport refinery; and

for general partnership purposes, to the extent available.

Please read Management's Discussion and Analysis of Financial Condition and Results of Operation, Liquidity and Capital Resources, Capital Expenditures, for additional discussion of the expansion project at our Shreveport refinery.

If the underwriters exercise their option to purchase additional common units, we will use the net proceeds for general partnership purposes, to the extent available. An increase or decrease in the offering price of \$1.00 per common unit would cause the net proceeds from the offering, after deducting underwriting discounts, commissions and fees and offering expenses payable by us, to increase or decrease by \$3.8 million (or \$4.4 million assuming full exercise of the underwriters' option to purchase additional common units). If the offering price were to exceed \$35.52 per common unit or if we were to increase the number of common units in this offering, the additional proceeds would be used for general partnership purposes, to the extent available.

We entered into a \$225.0 million revolving credit facility in December 2005 and simultaneously drew down a revolving loan thereunder, the proceeds of which (along with simultaneous borrowings under our term loan facility) were used to repay all of our then outstanding indebtedness. Borrowings under our revolving credit facility bear interest at a variable rate based upon LIBOR or the Bank of America, N.A.'s prime rate, at our option. As of June 8, 2006, we had \$6.2 million of outstanding indebtedness under our revolving credit facility, which matures in 2010, at an interest rate of 8.0%.

**Table of Contents****CAPITALIZATION**

The following table shows:

our historical cash and capitalization as of March 31, 2006; and

on a pro forma basis to reflect the sale of common units in this offering, our general partner's proportionate capital contribution and the application of the net proceeds we expect to receive in the offering as described under "Use of Proceeds."

We derived this table from, and it should be read in conjunction with and is qualified in its entirety by reference to, the historical and pro forma consolidated financial statements and the accompanying notes included elsewhere in this prospectus. You should also read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	<b>As of March 31, 2006</b>	
	<b>Historical</b>	<b>Pro Forma</b>
	<b>(In thousands)</b>	
Cash	\$ 85	\$ 123,276
Long term debt, including current portion:		
Revolving credit loan	14,751	
Term loan	49,875	49,875
<b>Total debt</b>	<b>64,626</b>	<b>49,875</b>
Partners' capital:		
Common unitholders	147,442	282,484
Subordinated unitholders	20,273	20,273
General partner interest	966	3,866
Accumulated other comprehensive income	499	499
<b>Total partners' capital</b>	<b>169,180</b>	<b>307,122</b>
<b>Total capitalization</b>	<b>233,806</b>	<b>356,997</b>

**Table of Contents****PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS**

Our common units are quoted and traded on the NASDAQ National Market under the symbol CLMT. Our common units began trading on January 26, 2006 at an initial public offering price of \$21.50 per common unit. The following table shows the low and high sales prices per common unit, as reported by the NASDAQ National Market, for the periods indicated. Distributions are shown in the quarter for which they were paid. For the first quarter of 2006, an identical cash distribution was paid on all outstanding common and subordinated units.

	Low	High	Cash Distribution Per Unit
<b>2006:</b>			
First quarter(1)	\$ 21.70	\$ 27.95	\$ 0.30(2)
Second quarter(3)	27.11	36.68	(4)

(1) January 26, 2006, the day our common units began trading on the NASDAQ National Market, 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.

(3) Through June 8, 2006.

(4) The cash distribution for this period has not been declared or paid.

The last reported sale price of the common units on the NASDAQ National Market on June 8, 2006 was \$35.52. As of June 8, 2006, there were approximately 14 holders of record of our common units.



Table of Contents

**HOW WE MAKE CASH DISTRIBUTIONS**

**Distributions of Available Cash**

**General.** Within 45 days after the end of each quarter, we will distribute our available cash to unitholders of record on the applicable record date.

**Definition of 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 will 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 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 are 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 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 to be included in our credit agreement that may restrict our ability to make distributions.

**General Partner Interest and Incentive Distribution Rights.** As of the date of this offering, 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 614,939 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 initial 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. Please read Incentive Distribution Rights for additional information.

**Table of Contents**

**Operating Surplus and Capital Surplus**

**General.** All cash distributed to unitholders is 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 this offering; plus

\$10.0 million (as described below); plus

all of our cash receipts after the closing of this 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 this 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.

Please read Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

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 are 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.

**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 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 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

**Table of Contents**

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 and in Appendix A), the common units 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. All of the outstanding subordinated units are owned by affiliates of our general partner. Please read Security Ownership of Certain Beneficial Owners and Management.

**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

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

**Table of Contents**

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.

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;

**Table of Contents**

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.* We will 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;



**Table of Contents**

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 the 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 this 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.

**Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels**

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, our partnership agreement specifies that the following items will be proportionately adjusted:

the minimum quarterly distribution;

target distribution levels;

the unrecovered initial unit price;

the number of common units issuable during the subordination period without a unitholder vote; and

the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level, the number of common units issuable during the subordination period without unitholder vote would double and each subordinated unit would be convertible into two common units. Our partnership agreement provides that we not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted by a governmental taxing authority, so that we become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, our partnership agreement specifies that the minimum quarterly distribution and the target distribution levels for each quarter will be reduced by multiplying each distribution level by a fraction, the numerator of which is available

**Table of Contents**

cash for that quarter and the denominator of which is the sum of available cash for that quarter plus the general partner's estimate of our aggregate liability for the quarter for such income taxes payable by reason of such legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

**Distributions of Cash Upon Liquidation**

**General.** If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and the general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of the general partner.

**Manner of Adjustments for Gain.** The manner of the adjustment for gain is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

first, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

second, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of: (1) the unrecovered initial unit price; (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; and (3) any unpaid arrearages in payment of the minimum quarterly distribution;

third, 98% to the subordinated unitholders, pro rata, and 2% to the general partner until the capital account for each subordinated unit is equal to the sum of: (1) the unrecovered initial unit price; and (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

fourth, 98% to all unitholders, pro rata, and 2% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to the general partner, for each quarter of our existence;

fifth, 85% to all unitholders, pro rata, and 15% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence;



**Table of Contents**

sixth, 75% to all unitholders, pro rata, and 25% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to the general partner for each quarter of our existence; and

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

The percentage interests set forth above for our general partner include its 2% general partner interest and assume the general partner has not transferred the incentive distribution rights.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

***Manner of Adjustments for Losses.*** If our liquidation occurs before the end of the subordination period, we will generally allocate any loss to the general partner and the unitholders in the following manner:

first, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the subordinated unitholders have been reduced to zero;

second, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the common unitholders have been reduced to zero; and

thereafter, 100% to the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

***Adjustments to Capital Accounts.*** Our partnership agreement requires that we make adjustments to capital accounts upon the issuance of additional units. In this regard, our partnership agreement specifies that we allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and the general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, our partnership agreement requires that we allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in the general partner's capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

**Table of Contents**

**SELECTED HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA**

The following table shows selected historical financial and operating data of Calumet Lubricants, Co., Limited Partnership ( Calumet Predecessor ) and pro forma financial data of Calumet Specialty Products Partners, L.P. ( Calumet ) for the periods and as of the dates indicated. The selected historical financial data as of December 31, 2001, 2002, 2003, 2004 and 2005 and March 31, 2005 and for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 and for the three months ended March 31, 2005, are derived from the consolidated financial statements of Calumet Predecessor. This summary financial data as of and for the three months ended March 31, 2006 are derived from the consolidated financial statements of Calumet. The results of operations for the three months ended March 31, 2006 for Calumet include the results of operations of Calumet Predecessor for the period of January 1, 2006 through January 31, 2006. The selected pro forma financial data as of March 31, 2006 and for the year ended December 31, 2005 and the three months ended March 31, 2006 are derived from the unaudited pro forma financial statements of Calumet. The pro forma adjustments have been prepared as if the transactions listed below had taken place on March 31, 2006, in the case of the pro forma balance sheet, or as of January 1, 2005, in the case of the pro forma statement of operations for the three months ended March 31, 2006 and for the year ended December 31, 2005. The pro forma financial data give pro forma effect to:

this offering of common units, our general partner's proportionate capital contribution and our application of the net proceeds, net of estimated underwriting commissions and other offering and transaction expenses therefrom;

our initial public offering of common units, our application of the net proceeds therefrom and the formation transactions related to our partnership; and

the refinancing by Calumet Predecessor of its long-term debt obligations pursuant to new credit facilities it entered into in December 2005.

None of the assets or liabilities of Calumet 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 in connection with the closing of our 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 cash flow from 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 and pro forma combined financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents**

	Calumet Predecessor					Calumet		Calumet Pro Forma	
	Year Ended December 31,					Three Months Ended March 31,		Year Ended	Three Months Ended
	2001	2002	2003	2004	2005	2005	2006	December 31, 2005	March 31, 2006
(In thousands, except per unit data)									
<b>Summary of Operations Data:</b>									
Sales	\$ 306,760	\$ 316,350	\$ 430,381	\$ 539,616	\$ 1,289,072	\$ 229,549	\$ 397,694	\$ 1,289,072	\$ 397,694
Cost of sales	272,523	268,911	385,890	501,284	1,148,715	203,432	346,744	1,148,715	346,744
Gross profit	34,237	47,439	44,491	38,332	140,357	26,117	50,950	140,357	50,950
Operating costs and expenses:									
Selling, general and administrative	7,844	9,066	9,432	13,133	22,126	3,392	4,929	22,126	4,929
Transportation	24,096	25,449	28,139	33,923	46,849	10,723	13,907	46,849	13,907
Taxes other than income	1,400	2,404	2,419	2,309	2,493	732	914	2,493	914
Other	1,038	1,392	905	839	871	157	115	871	115
Restructuring, decommissioning and asset impairments(1)	9,015		6,694	317	2,333	368		2,333	
Total operating income (loss)	(9,156)	9,128	(3,098)	(12,189)	65,685	10,745	31,085	65,685	31,085
Other income (expense):									
Equity in income (loss) of unconsolidated	1,636	2,442	867	(427)					

Edgar Filing: Calumet Specialty Products Partners, L.P. - Form S-1

affiliates									
Interest expense	(6,235)	(7,435)	(9,493)	(9,869)	(22,961)	(4,864)	(3,976)	(8,542)	(2,011)
Debt extinguishment costs					(6,882)		(2,967)	(6,882)	(2,967)
Realized gain (loss) on derivative instruments		1,058	(961)	39,160	2,830	(6,651)	(3,080)	2,830	(3,080)
Unrealized gain (loss) on derivative instruments			7,228	(7,788)	(27,586)	603	(17,715)	(27,586)	(17,715)
Other	471	88	32	83	242	39	199	242	199
Total other income (expense)	(4,128)	(3,847)	(2,327)	21,159	(54,357)	(10,873)	(27,539)	(39,938)	(25,574)
Net income (loss) before income taxes	(13,284)	5,281	(5,425)	8,970	11,328	(128)	3,546	25,747	5,511
Pro forma income tax expense							14	90	14
Net income (loss)	\$ (13,284)	\$ 5,281	\$ (5,425)	\$ 8,970	\$ 11,328	\$ (128)	\$ 3,532	\$ 25,657	\$ 5,497
Basic and diluted pro forma net income per limited partner unit:									
Common							\$ 0.30	\$ 2.43	\$ 0.45
Subordinated							\$ (0.36)	\$ (2.03)	\$ (0.18)
Weighted average units:									
Common							12,950	17,066	17,066
Subordinated							13,066	13,066	13,066
<b>Balance Sheet Data (at period end):</b>									

Property, plant and equipment, net	\$ 76,316	\$ 85,995	\$ 89,938	\$ 126,585	\$ 127,846	\$ 131,194	\$ 127,674	\$ 127,674
<b>Total assets</b>	<b>192,118</b>	<b>217,915</b>	<b>216,941</b>	<b>318,206</b>	<b>399,717</b>	<b>327,961</b>	<b>349,459</b>	<b>472,650</b>
Accounts payable	24,485	34,072	32,263	58,027	44,759	28,053	52,216	52,216
Long-term debt	127,759	141,968	146,853	214,069	267,985	251,376	64,626	49,875
Partners capital	17,362	30,968	25,544	34,514	39,054	34,385	169,180	307,122
<b>Cash Flow Data:</b>								
Net cash flow provided by (used in):								
Operating activities	\$ (13,774)	\$ (4,326)	\$ 7,048	\$ (612)	\$ (34,001)	\$ (48,005)	\$ 60,115	
Investing activities	(31,059)	(9,924)	(11,940)	(42,930)	(12,903)	(6,933)	(2,921)	
Financing activities	44,872	14,209	4,884	61,561	40,990	37,306	(69,282)	

**Table of Contents**

	Calumet Predecessor					Calumet		Calumet Pro Forma	
	Year Ended December 31,					Three Months Ended March 31,		Year Ended	Three Months Ended
	2001	2002	2003	2004	2005	2005	2006	December 31, 2005	March 31, 2006
(In thousands, except per unit data)									
<b>Other Financial Data:</b>									
EBITDA		\$ 18,592	\$ 10,837	\$ 25,766	\$ 51,557	\$ 7,532	\$ 13,162	\$ 51,557	\$ 13,162
Adjusted EBITDA		16,277	6,110	34,711	85,821	8,718	26,110	85,821	26,110
<b>Operating Data (bpd):</b>									
Total sales volume(2)	19,021	19,110	23,616	24,658	46,953	38,418	52,090		
Total feedstock runs(3)	18,941	21,665	25,007	26,205	50,213	42,059	52,370		
Total refinery production(4)	18,991	21,587	25,204	26,297	48,331	40,343	50,585		

(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 will be contributed to Calumet Specialty Products Partners, L.P.

(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 refining production and total feedstock production 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 prospectus the non-GAAP financial measures EBITDA and Adjusted EBITDA, and provide reconciliations of EBITDA and Adjusted EBITDA to net income and cash flow from 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 and support our indebtedness;

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.

We define EBITDA as net income plus interest expense, taxes and depreciation and amortization. We define Adjusted EBITDA to be Consolidated EBITDA as defined in our new 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 new 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

**Table of Contents**

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, cash flows from 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 EBITDA and Adjusted EBITDA to net income and cash flow from operating activities, our most directly comparable GAAP financial performance and liquidity measures, for each of the periods indicated:

	Calumet Predecessor				Calumet		Calumet Pro Forma	
	Year Ended December 31,				Three Months Ended March 31,		Year Ended December 31	Three Months Ended March 31,
	2002	2003	2004	2005	2005	2006	2005	2006
(In thousands)								
<b>Reconciliation of EBITDA to net income:</b>								
Net income (loss)	\$ 5,281	\$ (5,425)	\$ 8,970	\$ 11,328	\$ (128)	\$ 3,532	\$ 25,657	\$ 5,497
Add:								
Interest expense and debt extinguishment costs	7,435	9,493	9,869	29,843	4,864	6,943	15,424	4,978
Depreciation and amortization	5,876	6,769	6,927	10,386	2,796	2,673	10,386	2,673
Income tax expense						14	90	14
<b>EBITDA</b>	<b>\$ 18,592</b>	<b>\$ 10,837</b>	<b>\$ 25,766</b>	<b>\$ 51,557</b>	<b>\$ 7,532</b>	<b>\$ 13,162</b>	<b>\$ 51,557</b>	<b>\$ 13,162</b>
Add:								
Unrealized loss (gain) from mark to market accounting for hedging activities	\$	\$ (7,228)	\$ 7,788	\$ 27,586	\$ (603)	\$ 17,715	\$ 27,586	\$ 17,715
Non-cash impact of restructuring, decommissioning and asset impairments		2,250	(1,276)	1,766	368		1,766	
Prepaid non-recurring expenses and accrued	(2,315)	251	2,433	4,912	1,421	(4,767)	4,912	(4,767)



non-recurring  
expenses, net of  
cash outlays

Adjusted EBITDA	\$ 16,277	\$ 6,110	\$ 34,711	\$ 85,821	\$ 8,718	\$ 26,110	\$ 85,821	\$ 26,110
-----------------	-----------	----------	-----------	-----------	----------	-----------	-----------	-----------

**Table of Contents**

	Year Ended December 31,				Three Months Ended March 31,	
	2002	2003	2004	2005	2005	2006
	(in thousands)					
<b>Reconciliation of EBITDA to net cash provided (used) by operating activities:</b>						
Net cash provided (used) by operating activities	\$ (4,326)	\$ 7,048	\$ (612)	\$ (34,011)	\$ (48,055)	\$ 60,115
Add:						
Interest expense and debt extinguishment costs	7,435	9,493	9,869	29,843	4,864	6,943
Income tax expense						14
Restructuring charge		(874)		(1,693)		
Provision for doubtful accounts	(16)	(12)	(216)	(294)	(50)	(127)
Equity in (loss) income of unconsolidated affiliates	2,442	867	(427)			
Dividends received from unconsolidated affiliates	(2,925)	(750)	(3,470)			
Debt extinguishment costs				(4,173)		(2,967)
Accounts receivable	1,025	4,670	19,399	56,878	22,506	(1,400)
Inventory	16,984	(15,547)	20,304	25,441	3,009	(7,313)
Other current assets	(1,295)	563	11,596	(569)	5,117	(16,471)
Derivative activity	3,682	6,265	(5,046)	(31,101)	(6,305)	(18,694)
Accounts payable	(9,587)	1,809	(25,764)	13,268	29,974	(7,457)
Accrued liabilities	2,622	(1,379)	(1,203)	(5,874)	(2,551)	4,933
Other, including changes in noncurrent assets and liabilities	2,551	(1,316)	1,336	3,832	(1,027)	(4,414)
EBITDA	\$ 18,592	\$ 10,837	\$ 25,766	\$ 51,557	\$ 7,532	\$ 13,162
Add:						
Unrealized loss (gain) from mark to market accounting for hedging activities	\$	\$ (7,228)	\$ 7,788	\$ 27,586	\$ (603)	\$ 17,715
Non-cash impact of restructuring, decommissioning and asset impairments		2,250	(1,276)	1,766	368	
Prepaid non-recurring expenses and accrued non-recurring expenses, net of cash outlays	(2,315)	251	2,433	4,912	1,421	(4,767)
Adjusted EBITDA	\$ 16,277	\$ 6,110	\$ 34,711	\$ 85,821	\$ 8,718	\$ 26,110



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The historical consolidated financial statements included in this prospectus 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 ( Calumet 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, and the Bareco joint venture, which was terminated as described below. The following discussion analyzes the financial condition and results of operations of Calumet Predecessor for the years ended December 31, 2003, 2004, 2005, and for the three months ended March 31, 2005. The financial condition and results of operation for the three months ended March 31, 2006 are of Calumet and include the results of operations of Calumet Predecessor for the period from January 1, 2006 to January 31, 2006. You should read the following discussion of the financial condition and results of operations for Calumet Predecessor in conjunction with the historical consolidated financial statements and notes of Calumet Predecessor and historical consolidated financial statements and notes and the pro forma financial statements for Calumet included elsewhere in this prospectus. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the Risk Factors and Forward-Looking Statements sections of this prospectus. Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

**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 fuel and jet fuel. Our specialty products segment results include fuel, asphalt, and other by-products produced in connection with our production of specialty products. Our fuel products segment results includes asphalt and other by-products produced in connection with the production of fuel products at the Shreveport refinery. For the year ended December 31, 2005 and the three months ended March 31, 2006, approximately 52.2% and 72.7%, respectively, of our gross profit was generated from our specialty products segment and approximately 47.8% and 27.3%, respectively, of our gross profit was generated from our fuel products segment.

On January 31, 2006, we completed our initial public offering of our common units and received aggregate net proceeds (including pursuant to the underwriters' full exercise of their option to purchase additional units) of approximately \$144.4 million. The net proceeds were used to: (1) repay indebtedness and accrued interest under our first lien term loan facility in the amount of approximately \$125.7 million, (2) repay indebtedness under our secured revolving credit facility in the amount of approximately \$13.1 million and (3) pay transaction fees and expenses in the amount of approximately \$5.6 million.

Subsequent to the acquisition of the Shreveport refinery, Calumet Predecessor undertook to streamline its wax processing and marketing operations by decommissioning its Rouseville facility, closing its Reno facility and terminating its Bareco joint venture. None of the assets or liabilities of Calumet Predecessor's Rouseville facility, Reno facility or Bareco joint venture were contributed to Calumet in connection with the initial public offering on January 31, 2006. Calumet Predecessor



**Table of Contents**

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 and \$2.3 million in 2005. In 2005, Calumet Predecessor closed the Reno facility for a restructuring cost of \$1.7 million. In 2003, Calumet Predecessor terminated its Bareco joint venture. The results of operations of Bareco are reflected in equity in (loss) income of unconsolidated affiliates in the consolidated statements of operations. The combined net book value of the Reno and Rouseville operations as of December 31, 2005 was \$0.4 million.

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. Since completion of the reconfiguration of the Shreveport refinery, crack spreads have increased, which has further improved the profitability of the fuel products segment. During 2006, we commenced a major expansion project at our Shreveport refinery to increase throughput capacity and feedstock flexibility. Please read *Liquidity and Capital Resources* *Capital Expenditures*.

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.

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 product prices. We enter into derivative contracts for future periods in quantities which do not exceed our projected purchases of crude oil and fuels production. Please read *Quantitative and Qualitative Disclosures about Market Risk* *Commodity Price Risk*.

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 fuel 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 margin 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

**Table of Contents**

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.

**Results of Operations**

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

	Calumet Predecessor			Calumet Predecessor Calumet	
	Year Ended December 31,			Three Months Ended March 31,	
	2003-	2004	2005	2005	2006
Total sales volume (bpd)(1)	23,616	24,658	46,953	38,418	52,090
Total feedstock runs (bpd)(2)	25,007	26,205	50,213	42,059	52,370
Refinery production (bpd)(3):					
Specialty products:					
Lubricating oils	8,290	9,437	11,556	10,095	11,695
Solvents	4,623	4,973	4,422	3,422	4,346
Waxes	699	1,010	1,020	886	1,144
Asphalt and other by-products	5,159	5,992	6,313	5,490	5,561
Fuels	6,433	3,931	2,354	2,395	2,508
Total	25,204	25,343	25,665	22,288	25,254
Fuel products:					
Gasoline		3	8,278	6,401	10,002
Diesel fuel		583	8,891	7,792	7,724
Jet fuel		342	5,080	3,772	7,308
Asphalt and other by-products		26	417	90	297
Total		954	22,666	18,055	25,331
Total refinery production	25,204	26,297	48,331	40,343	50,585

- (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.



**Table of Contents**

The following table sets forth information about the sales of our principal products.

	Calumet Predecessor			Calumet	Calumet
	Year Ended December 31,			Predecessor	Calumet
	2003	2004	2005	Three Months Ended March 31, 2005	2006
<b>(In millions)</b>					
<b>Specialty products:</b>					
Lubricating oils	\$ 205.9	\$ 251.9	\$ 394.4	\$ 79.0	\$ 132.9
Solvents	87.6	114.7	145.0	27.5	52.4
Waxes	32.3	39.5	43.6	8.5	15.5
Fuels	83.5	72.7	44.0	11.7	11.8
Asphalt and other by-products	21.1	51.2	76.3	15.1	17.1
<b>Total</b>	<b>430.4</b>	<b>530.0</b>	<b>703.3</b>	<b>141.8</b>	<b>229.7</b>
<b>Fuel products:</b>					
Gasoline			223.6	27.9	71.9
Diesel fuel		3.3	230.9	40.7	56.0
Jet fuel			121.3	15.3	38.9
Asphalt and other by-products		6.3	10.0	3.8	1.2
<b>Total</b>		<b>9.6</b>	<b>585.8</b>	<b>87.7</b>	<b>168.0</b>
<b>Consolidated sales</b>	<b>\$ 430.4</b>	<b>\$ 539.6</b>	<b>\$ 1,289.1</b>	<b>\$ 229.5</b>	<b>\$ 397.7</b>

**Table of Contents**

The following table reflects our consolidated results of operations.

	Calumet Predecessor			Calumet Predecessor	Calumet
	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	<b>(In millions)</b>				
Sales	\$ 430.4	\$ 539.6	\$ 1,289.1	\$ 229.5	\$ 397.7
Cost of sales	385.9	501.3	1,148.7	203.4	346.7
Gross profit	44.5	38.3	140.4	26.1	51.0
Operating costs and expenses:					
Selling, general and administrative	9.4	13.1	22.1	3.4	4.9
Transportation	28.2	34.0	46.9	10.7	13.9
Taxes other than income taxes	2.4	2.3	2.5	0.7	1.0
Other	0.9	0.8	0.9	0.2	0.1
Restructuring, decommissioning and asset impairments	6.7	0.3	2.3	0.4	
Operating income (loss)	(3.1)	(12.2)	65.7	10.7	31.1
Other income (expense):					
Equity in (loss) income of unconsolidated affiliates	0.9	(0.4)			
Interest expense	(9.5)	(9.9)	(23.0)	(4.8)	(4.0)
Debt extinguishment costs			(6.9)		(3.0)
Realized gain (loss) on derivative instruments	(1.0)	39.2	2.8	(6.6)	(3.1)
Unrealized gain (loss) on derivative instruments	7.3	(7.8)	(27.6)	0.6	(17.7)
Other		0.1	0.3		0.2
Total other income (expense)	(2.3)	21.2	(54.4)	(10.8)	(27.6)
Net income (loss)	\$ (5.4)	\$ 9.0	\$ 11.3	\$ (0.1)	\$ 3.5

**Table of Contents****Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005**

**Sales.** Sales increased \$168.1 million, or 73.3%, to \$397.7 million in the three months ended March 31, 2006 from \$229.5 million in the three months ended March 31, 2005. Sales for each of our principal product categories in these periods were as follows:

	<b>Calumet Predecessor</b>	<b>Calumet</b>	
	<b>Three Months Ended March 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>% Change</b>
	<b>(Dollars in millions)</b>		
<b>Sales by segment:</b>			
Specialty products:			
Lubricating oils	\$ 79.0	\$ 132.9	68.2%
Solvents	27.5	52.4	90.2
Waxes	8.5	15.5	81.5
Fuels(1)	11.7	11.8	0.8
Asphalt and by-products(2)	15.1	17.1	13.9
<b>Total specialty products</b>	<b>\$ 141.8</b>	<b>\$ 229.7</b>	<b>61.9%</b>
<b>Total specialty products volume (in barrels)</b>	<b>2,033,000</b>	<b>2,414,000</b>	<b>18.8%</b>
Fuel products:			
Gasoline	\$ 27.9	\$ 71.9	157.7%
Diesel	40.7	56.0	37.3
Jet fuel	15.3	38.9	154.5
Asphalt and by-products(3)	3.8	1.2	(67.6)
<b>Total fuel products</b>	<b>\$ 87.7</b>	<b>\$ 168.0</b>	<b>91.5%</b>
<b>Total fuel products sales volumes (in barrels)</b>	<b>1,425,000</b>	<b>2,274,000</b>	<b>59.6%</b>
<b>Total sales</b>	<b>\$ 229.5</b>	<b>\$ 397.7</b>	<b>73.3%</b>
<b>Total sales volumes (in barrels)</b>	<b>3,458,000</b>	<b>4,688,000</b>	<b>35.6%</b>

(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 asphalt and other by-products produced in connection with the production of fuels at the Shreveport refinery.

This \$168.1 million increase in sales resulted from the increased production of our fuels operations at the Shreveport refinery in the first quarter of 2005, which accounted for \$80.3 million of the increase, and from a \$87.9 million increase in sales by our specialty products segment.

Specialty products segment sales for the three months ended March 31, 2006 increased \$87.9 million, or 61.9% over sales for the three months ended March 31, 2005, primarily due to a 36.3% increase in the average selling price per barrel. In addition, specialty products segment sales were positively affected by an 18.8% increase in volumes sold, from approximately 2.0 million barrels in the first quarter of 2005 to 2.4 million barrels in the first quarter of 2006 mainly due to increased sales volume of 0.3 and 0.2 million barrels for lubricating oils and solvents, respectively, partially

**Table of Contents**

offset by decreased sales of fuels and asphalt and by-products that are produced by the specialty products segment. Average selling prices per barrel for lubricating oils, solvents, fuels and asphalt and by-product prices increased at rates comparable to or in excess of the overall 25.1% increase in the cost of crude oil per barrel during the period, whereas waxes increased by only 22.0% due to market conditions.

Fuel products segment sales for 2006 increased \$80.3 million, or 91.5% for the three months ended March 31, 2006, primarily due to increased volume of 59.6% attributable to the increased production of our fuels operations at the Shreveport refinery in the first quarter of 2005. This increase was due to increased combined sales volume for gasoline and jet fuel of 0.8 million barrels, or \$48.3 million, with diesel fuel sales volume remaining relatively constant. In addition, fuel product segment sales increased due to a 20.1% increase in average sales prices per barrel for fuel products consistent with the 25.6% increase in the cost of crude oil per barrel.

**Gross Profit.** Gross profit increased \$24.8 million, or 95.1%, to \$51.0 million for the three months ended March 31, 2006 from \$26.1 million for the three months ended March 31, 2005. Gross profit for our specialty and fuel products segments were as follows:

	<b>Calumet Predecessor</b>		<b>Calumet</b>		
	<b>Three Months Ended March 31</b>				
	<b>2005</b>		<b>2006</b>		<b>% Change</b>
	<b>(Dollars in millions)</b>				
<b>Gross profit by segment:</b>					
Specialty products	\$	17.7	\$	37.1	109.6%
Percentage of sales		12.5%		16.2%	
Fuel products	\$	8.4	\$	13.9	65.5%
Percentage of sales		9.5%		8.3%	
Total gross profit	\$	26.1	\$	51.0	95.1%
Percentage of sales		11.4%		12.8%	

This \$24.8 million increase in total gross profit includes an increase in gross profit of \$19.4 million in our specialty product segment and \$5.5 million in our fuel product segment.

The increase of \$19.4 million in our specialty products segment gross profit was primarily due to improved selling prices and profitability of lubricating oils at our Shreveport refinery which is attributable to the increase of 0.4 million barrels in sales volumes and a 36.3% increase in sales prices for the specialty products segment which exceeded the 25.1% increase in the cost of crude oil.

The increase of \$5.5 million in our fuel products segment gross profit was primarily affected by a 59.6% increase in sales volume, which was largely driven by increased combined sales volume for gasoline and jet fuel of 0.8 million barrels as a result of the increased production of the fuels operations at the Shreveport refinery in the first quarter of 2005.

**Selling, general and administrative.** Selling, general and administrative expenses increased \$1.5 million, or 45.3%, to \$4.9 million in the three months ended March 31, 2006 from \$3.4 million in the three months ended March 31, 2005. This increase primarily reflects increased general and administrative costs incurred as a result of being a publicly traded partnership and increased employee compensation costs.

**Transportation.** Transportation expenses increased \$3.2 million, or 29.7%, to \$13.9 million in the three months ended March 31, 2006 from \$10.7 million in the three months ended March 31, 2005. The

quarter over quarter increase in transportation expense is primarily due to the overall increase in volumes which was partially offset by more localized marketing of fuel products.

**Table of Contents**

***Restructuring, decommissioning and asset impairments.*** Restructuring, decommissioning and asset impairment expenses were \$0.4 million in the three months ended March 31, 2005, and we incurred no such expenses in 2006. The charges recorded in 2005 related to asset impairment of the Reno wax packaging assets. No assets impairments occurred the first quarter of 2006.

***Interest expense.*** Interest expense decreased \$0.9 million, or 18.3%, to \$4.0 million in the three months ended March 31, 2006 from \$4.9 million in the three months ended March 31, 2005. This decrease was primarily due to our debt refinancing in December 2005 and the repayment of debt with the proceeds of our initial public offering, which occurred on January 31, 2006.

***Debt extinguishment costs.*** Debt extinguishment costs increased to \$3.0 for the three months ended March 31, 2006 compared to no debt extinguishment costs for the three months ended March 31, 2005, as a result of the repayment of borrowings under our term loan using a portion of the net proceeds from our initial public offering, which occurred on January 31, 2006.

***Realized loss on derivative instruments.*** Realized loss on derivative instruments decreased \$3.6 million, or 53.7%, to a \$3.1 million loss in the three months ended March 31, 2006 from a \$6.7 million loss in the three months ended March 31, 2005. This decrease primarily was the result of a new mix of crude and fuel product margin collar and swap contracts which have experienced less decline in value than the contracts that settled in the first quarter of 2005.

***Unrealized (loss) gain on derivative instruments.*** Unrealized loss on derivative instruments increased \$18.3 million to a \$17.7 million loss in the three months ended March 31, 2006 from a \$0.6 million unrealized gain for the three months ended March 31, 2005. This unrealized loss is a non-cash item that results from valuing at fair value our derivative instruments used to hedge our fuel products margins in future periods. The increase compared to the same period in the prior year is primarily due to the decline in fair value of these instruments as the market prices for fuel products have increased. Our objective in hedging our fuel products margins is to ensure stability of cash flows in future periods. We believe that this hedging program is helping us achieve this objective.

**Table of Contents****Year Ended December 31, 2005 Compared to Year Ended December 31, 2004**

**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:

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

Table of Contents

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:

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

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 fuel 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 \$2.0 million charge related to the closing of the Reno wax packaging facility. 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 14.0%.

**Table of Contents**

On December 9, 2005, we repaid our existing facilities with the proceeds of borrowings under our current credit agreements. This resulted in debt extinguishment costs of \$6.9 million being recorded in the fourth quarter.

**Gain (loss) on derivative instruments.** Gains (loss) on derivative instruments decreased \$56.1 million, to a \$24.8 million loss in the year ended December 31, 2005 from a \$31.4 million gain in the year ended December 31, 2004. This decrease primarily was the result of marking to fair value a new mix of fuel product margin collar and swap contracts which experienced significant declines in value due to increased crack spreads as of December 31, 2005.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**

**Sales.** Sales increased \$109.2 million, or 25.4%, to \$539.6 million in the year ended December 31, 2004 from \$430.4 million in the year ended December 31, 2003. Sales for each of our principal product categories in these periods were as follows:

	<b>Calumet Predecessor</b>		
	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2004</b>	<b>% Change</b>
	<b>(Dollars in millions)</b>		
<b>Sales by segment:</b>			
<b>Specialty products:</b>			
Lubricating oils	\$ 205.9	\$ 251.9	22.3%
Solvents	87.6	114.7	30.9
Waxes	32.3	39.5	22.3
Fuels(1)	83.5	72.7	(13.0)
Asphalt and by-products(2)	21.1	51.2	142.7
<b>Total specialty products</b>	<b>\$ 430.4</b>	<b>\$ 530.0</b>	<b>23.1%</b>
<b>Total specialty products volumes (in barrels)</b>	<b>8,620,000</b>	<b>8,807,000</b>	<b>2.2%</b>
<b>Fuel products:</b>			
Gasoline	\$	\$	
Diesel		3.3	
Jet fuel			
Asphalt and by-products(3)		6.3	
<b>Total fuel products</b>	<b>\$</b>	<b>\$ 9.6</b>	
<b>Total fuel products volumes (in barrels)</b>		<b>193,000</b>	
<b>Total sales</b>	<b>\$ 430.4</b>	<b>\$ 539.6</b>	<b>25.4%</b>
<b>Total sales volumes (in barrels)</b>	<b>8,620,000</b>	<b>9,000,000</b>	<b>4.4%</b>

(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 and Cotton Valley refineries.

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

This \$109.2 million increase in sales resulted primarily from a 23.1% increase in specialty products sales, and also from the addition of \$9.6 million in sales from the start-up of our fuel products operations at the Shreveport refinery. The increase in specialty product sales resulted primarily from an increase of 20.5% in the average price per barrel of product sold, and also from a

**Table of Contents**

2.2% increase in volumes sold, from approximately 8.6 million barrels in 2003 to 8.8 million barrels in 2004. Sales price increases were driven by an average 32.5% increase in the cost of crude oil per barrel over the same period. Increases in prices for waxes lagged our average increase in price per barrel of product sold compared to the increase in prices for lubricating oils, solvents and fuels. In 2004 as compared to 2003, sales volumes of fuels decreased and sales volumes of asphalt and by-products increased due to a different mix of feedstock.

**Gross Profit.** Gross profit decreased \$6.2 million, or 13.8%, to \$38.3 million for the year ended December 31, 2004 from \$44.5 million for the year ended December 31, 2003. Gross profit for our specialty and fuel products segments were as follows:

	<b>Calumet Predecessor</b>		
	<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2004</b>	<b>% Change</b>
<b>(Dollars in millions)</b>			
<b>Gross profit by segment:</b>			
Specialty products	\$ 44.5	\$ 40.6	(8.6)%
Percentage of sales	10.3%	7.7%	
Fuel products		(2.3)	
Percentage of sales		(24.1)%	
Total gross profit	\$ 44.5	\$ 38.3	(13.8)%
Percentage of sales	10.3%	7.1%	

This \$6.2 million decrease in total gross profit includes a decrease of \$3.9 million in specialty products gross profit and a loss of \$2.3 million in our fuel products segment which began operations in late 2004. The decrease in specialty products gross profit resulted from a 32.3% increase in the average price of crude oil per barrel which was partially offset by a 20.5% increase in selling prices and 2.2% increase in sales volumes. The increase in selling prices lagged behind the rising costs of crude oil feedstocks for specialty products. However, we sought to manage the financial impact of this lag through the use of derivative instruments, which provided gains in the 2003 and 2004 periods as described in gain (loss) on derivative instruments below.

**Selling, general and administrative.** Selling, general and administrative expenses increased \$3.7 million, or 39.2%, to \$13.1 million in the year ended December 31, 2004 from \$9.4 million in the year ended December 31, 2003. This increase primarily reflects \$2.2 million of increased compensation costs due to our incentive bonuses.

**Transportation.** Transportation expenses increased \$5.8 million, or 20.6%, to \$33.9 million in the year ended December 31, 2004 from \$28.1 million in the year ended December 31, 2003. This increase primarily reflects fuel surcharges and rail rate increases.

**Restructuring, decommissioning and asset impairments.** Restructuring, decommissioning and asset impairment expenses decreased \$6.4 million to \$0.3 million in the year ended December 31, 2004 from \$6.7 million in the year ended December 31, 2003. In 2004, we recorded a \$0.3 million charge related to the completion of the Rouseville asset decommissioning. In 2003, we recorded a \$6.7 million charge related to the decommissioning of the Rouseville facility and related asset impairment.

**Interest expense.** Interest expense increased \$0.4 million, or 4.0%, to \$9.9 million in the year ended December 31, 2004 from \$9.5 million in the year ended December 31, 2003. This increase was primarily

due to increased borrowings under the credit agreement with a limited partner and borrowings under the term loan agreement related to the reconfiguration of the Shreveport refinery entered into during the fourth quarter of 2004.

**Table of Contents**

**Gain (loss) on derivative instruments.** Gains on derivative instruments increased \$25.1 million, or 400.6%, to \$31.4 million in the year ended December 31, 2004 from \$6.3 million in the year ended December 31, 2003. This increase was the result of marking to fair value gains due to the rising price of crude oil in relation to the contractual strike prices on our derivative instruments and our new mix of fuel product margin collar and swap contracts during 2004.

**Liquidity and Capital Resources**

Our principal historical sources of cash have included the issuance of private debt, bank borrowings, and cash flow from operations. Principal historical uses of cash have included capital expenditures, growth in working capital 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 flows 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 (in millions):

	Calumet Predecessor			Calumet	Calumet
	Year Ended			Three Months Ended	
	2003	2004	2005	2005	2006
Net cash provided by (used in) operating activities	\$ 7.0	\$ (0.6)	\$ (34.0)	\$ (48.0)	\$ 60.1
Net cash used in investing activities	(11.9)	(42.9)	(12.9)	(6.9)	(2.9)
Net cash provided by (used in) financing activities	\$ 4.9	\$ 61.6	\$ 41.0	\$ 37.3	\$ (69.3)

**Operating Activities.** Operating activities provided \$60.1 million in cash during the three months ended March 31, 2006 compared to \$48.0 million used in operating activities during the three months ended March 31, 2005. The cash provided by operating activities during the three months ended March 31, 2006 primarily consisted of a \$26.2 million decrease in current assets, a \$7.5 million increase in accounts payable, and a \$17.7 million unrealized loss on derivatives instruments. These were offset by increases in other current liabilities of \$4.9. The cash used in operating activities during the three months ended March 31, 2005 was primarily due to the build up of working capital as a result of the rampup of the fuels operations at the Shreveport refinery.

Operating activities used \$34.0 million in cash during the year ended December 31, 2005 compared to \$0.6 million during 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 payment for capital expenditures 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.



**Table of Contents**

Operating activities used \$0.6 million of cash for the year ended December 31, 2004 compared to generating \$7.0 million of cash for the year ended December 31, 2003. This decrease is primarily due to increased levels of accounts receivable and inventory which more than offset increases in net income and accounts payable. This net increase in accounts payable was driven primarily by capital expenditures related to the Shreveport reconfiguration incurred but not paid at the end of 2004 and the rising cost of crude oil.

**Investing Activities.** Cash used in investing activities decreased to \$2.9 million during the three months ended March 31, 2006 as compared to \$6.9 million during the three months ended March 31, 2005. This decrease is primarily due to the \$5.1 million of additions to property, plant and equipment related to the reconfiguration at our Shreveport refinery incurred during 2005, with no comparable expenditures in 2006.

Cash used in investing activities decreased to \$12.9 million during the year ended December 31, 2005 as compared to \$42.9 million during the year ended December 31, 2004. This decrease is primarily due to the \$36.0 million of additions to property, plant and equipment related to the reconfiguration at our Shreveport refinery incurred during 2004, with no comparable expenditures in 2005, offset by an upgrade to the capacity and enhancement of product mix at our Cotton Valley refinery in 2005.

Cash used in investing activities increased to \$42.9 million for the year ended December 31, 2004 compared to \$11.9 million for the year ended December 31, 2003. This increase is primarily due to \$36.0 million of additions to property, plant and equipment related to the reconfiguration at our Shreveport refinery incurred during 2004.

**Financing Activities.** Financing activities used cash of \$69.3 million for the three months ended March 31, 2006 compared to providing \$37.3 million for the three months ended March 31, 2005. This decrease is primarily due to the use of cash from operations to pay down debt and borrowings in the three months ended March 31, 2005 to finance the growth in working capital related to the increased production of fuel products operations at Shreveport.

Financing activities provided cash of \$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 2005 to finance the growth in working capital related to the startup of fuel products operations at Shreveport.

Cash provided by financing activities increased to \$61.6 million for the year ended December 31, 2004 compared to \$4.9 million for the year ended December 31, 2003. This increase is primarily due to the third party borrowings of \$49.8 million and additional borrowings from a limited partner obtained to finance the reconfiguration at our Shreveport refinery.

**Cash Distributions to Unitholders**

We paid a quarterly distribution of \$0.30 per unit (\$8.0 million) to common and subordinated unitholders and our general partner on May 15, 2006. The \$0.30 per unit distribution reflected the pro rata portion of the \$0.45 quarterly distribution per unit for the period from January 31, 2006, the date of the closing of our initial public offering, through March 31, 2006. We intend to continue making minimum quarterly distributions of \$0.45 per unit to all common and subordinated unitholders throughout 2006 to the extent we have sufficient cash from operations after establishment of cash reserves.

**Capital Expenditures**

Our capital requirements consist of capital improvement expenditures, replacement capital expenditures and environmental 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

**Table of Contents**

equipment or parts. Environmental expenditures include property additions to meet or exceed environmental and operating regulations. We expense all maintenance costs with major maintenance and repairs (facility turnarounds) accrued in advance over the period between turnarounds.

The following table sets forth our capital improvement expenditures, replacement capital expenditures and environmental expenditures in each of the periods shown.

	Calumet Predecessor			Calumet	Calumet	
	Year Ended December 31,			Predecessor	Calumet	
	2003	2004	2005	Three Months Ended March 31,	2005	2006
	(In millions)					
Capital improvement expenditures	\$ 7.5	\$ 39.0	\$ 8.8	\$	5.9	\$ 1.7
Replacement capital expenditures	4.3	2.6	3.5		1.0	0.6
Environmental expenditures	0.4	1.4	0.7			0.7
Total	\$ 12.2	\$ 43.0	\$ 13.0	\$	6.9	\$ 3.0

We anticipate that future capital improvement requirements will be provided through long-term borrowings, other debt financings, equity offerings and/or cash on hand.

***Shreveport Refinery Expansion Project***

We have commenced a major 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. Upon completion of the project and on a combined basis, our production of specialty lubricating oils and waxes at the Shreveport refinery is anticipated to increase by approximately 75.0% over first quarter 2006 levels and our production of fuel products at the Shreveport refinery is anticipated to increase by approximately 30.0% over first quarter 2006 levels.

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 process approximately 42,000 bpd of sweet crude oil and 13,000 bpd of sour crude oil, with the remainder coming from interplant feedstocks. Our ability to process significant amounts of sour crude oil enhances our competitive position in the industry relative to refiners that process primarily sweet crude oil because sour crude oil typically can be purchased at a discount to sweet crude oil.

Subject to normal contingencies, we anticipate incurring approximately \$60 million in capital expenditures related to the expansion project during 2006 and approximately \$50 million related to the expansion project in 2007. We expect that our expansion project will be accretive on a per unit basis upon its completion. Please read "The Partnership Agreement - Issuance of Additional Securities" for a discussion of our ability to issue additional equity securities before the completion of the Shreveport refinery expansion project.

**Table of Contents**

***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; 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.

At March 31, 2006 we had borrowings of \$49.9 million under our term loan and \$14.8 million under our revolving credit facility. Our letters of credit outstanding as of March 31, 2006 were \$40.0 million under the revolving credit facility and \$50.0 million under the \$50.0 million letter of credit facility.

At December 31, 2005 we had borrowings of \$175.0 million under our term loan facility and \$93.0 million under our revolving credit facility. Our letters of credit outstanding as of December 31, 2005 were \$37.7 million under the revolving credit facility and \$11.0 million under the \$50 million letter of credit facility to support crack spread hedging.

The secured revolving credit facility currently bears interest at Bank of America, N.A.'s prime rate 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 March 31, 2006, we had availability on our revolving credit facility of \$130.5 million, based upon its \$185.2 million borrowing base, \$40.0 million in outstanding letters of credit, and borrowings of \$14.8 million. As of June 8, 2006, we had availability on our revolving credit facility of \$131.2 million, based upon its \$206.3 borrowing base, \$68.9 million in outstanding letters of credit, and borrowings of \$6.2 million.

The term loan facility was fully drawn at the time of the refinancing. 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, including and the underwriters' option to purchase additional units, to repay 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%. Borrowings under the term loan facility bear interest at LIBOR plus 3.50%.

In June 2006, we expect to amend our term loan and revolving credit facilities to increase the amount of permitted capital expenditures we may make in order to accommodate our Shreveport refinery expansion project and to increase the level of permitted annual capital expenditures beginning in 2007.

Our letter of credit facility to support crack spread hedging is secured by a first priority lien on our fixed assets. As long as this first priority lien is in effect, we will have no obligation to post additional cash, letters of credit or other collateral to supplement this \$50.0 million letter of credit to secure our crack spread hedges at any time, even if our counterparty's exposure to our credit increases over the term of the hedge as a result of higher commodity prices.

**Table of Contents**

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 dividends 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 refining margins in our fuels segment for a rolling two-year period for at least 40%, and no more than 80%, of our anticipated fuels production).

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; the accrual of liability with respect to any pension or multiemployer plan in excess of \$5.0 million asserted invalidity of the loan documentation; a change of control in us; the loss of collateral; the inability to conduct any material part of our business; and certain criminal matters.

**Table of Contents****Contractual Obligations and Commercial Commitments**

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

	Total	Payments Due by Period (thousands)			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations	\$ 64,626	\$ 500	\$ 1,000	\$ 15,751	\$ 47,375
Operating lease obligations(1)	35,666	8,719	11,496	7,088	8,363
Letters of credit(2)	40,045	40,045			
Crack spread hedging letter of credit(3)	50,000				50,000
Purchase commitments(4)	793,132	399,190	359,028	34,914	
Employment agreement(5)	1,609	333	666	610	
<b>Total obligations</b>	<b>\$ 985,078</b>	<b>\$ 448,787</b>	<b>\$ 372,190</b>	<b>\$ 58,363</b>	<b>\$ 105,738</b>

(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) Standby letters of credit supporting crude oil purchases and hedging activities.

(3) Standby letters of credit supporting hedging activities.

(4) 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.

(5) Annual compensation under the employment agreement of F. William Grube, President and Chief Executive Officer.

**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 three months ended March 31, 2005 and 2006 and the years ended December 31, 2003, 2004 and 2005. 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 that appear elsewhere in this prospectus. 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.

**Table of Contents**

***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.

***Inventory***

The cost of inventories is determined using the last-in, first-out (LIFO) method. Costs include material, labor and manufacturing 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 \$47.8 million and \$53.2 million higher at December 31, 2005 and March 31, 2006, 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 expense. 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 balance sheet. 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 other comprehensive income. For cash flow hedges of the purchase of natural gas and crude oil, the realized gain or loss on the derivative instrument is recorded to cost of goods sold in the statement of operations upon completed purchase of crude oil or natural gas. The realized gain or loss upon the settlement of a cash flow hedge of the sale of diesel fuel or gasoline is recorded to sales in the statement of operations when the sale occurs. 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 statement of operations. Upon the settlement of a derivative not designated as a cash flow hedge, the gain or loss for the gain or loss at settlement is recorded to realized gain or loss on derivative instruments in the statement of operations.

At March 31, 2006, certain derivatives hedging natural gas and crude oil purchases for our specialty products segment were designated as cash flow hedges. During 2003, 2004 and through November 30, 2005, none of our outstanding derivative transactions were designated as hedges. At March 31, 2006, \$0.5 million was recorded in other comprehensive income related to these natural gas and crude derivative contracts with \$0.1 million to be recognized in the statement of operations during the remainder of 2006 and \$0.4 million in 2007.

At March 31, 2006, we had not designated our derivative contracts hedging refining margins as cash flow hedges. The company utilizes third party valuations, published market data and option valuation models to determine the fair value of these derivatives. The change in fair value of these derivatives is recorded in unrealized gain or loss on derivative instruments in the statement of operations. 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.

In April 2006, we entered into a derivative contract to minimize a portion of our exposure to rising interest rates. We have designated this contract as a cash flow hedge.

**Table of Contents**

**Recent Accounting Pronouncements**

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting (SFAS) No. 151, Inventory Costs – an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. The Statement clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current-period expenses regardless of how abnormal the circumstances. In addition, this Statement requires that the allocation of fixed overheads to the costs of conversion be based upon normal production capacity levels. The Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not anticipate that this Statement will have a material effect on our financial position, results of operations or cash flows.

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. We expect to adopt 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. There was no impact of adoption of Statement 123(R) as we had not granted share-based payments as of the date of adoption.

In 2005, the FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations* was issued. We were required to adopt this interpretation as of December 31, 2005. We have conditional asset retirement obligations related to our Cotton Valley, Shreveport and Princeton refineries related to asbestos. We believe that there is an indeterminate settlement date for these obligations so that a fair value cannot be reasonably estimated. Therefore, we did not record any liability for asset retirement obligations related to these refineries upon adoption of FIN 47.

**Quantitative and Qualitative Disclosures about Market Risk**

***Interest Rate Risk***

We are exposed to market risk from fluctuations in interest rates. As of December 31, 2005 and March 31, 2006, we had approximately \$268.0 and \$64.6 million of variable rate debt, respectively. Holding other variables constant (such as debt levels) a one hundred basis point change in interest rates on our variable rate debt as of March 31, 2006 would be expected to have an impact on net income and cash flows for 2006 of approximately \$0.6 million.

***Commodity Price Risk***

Both our profitability and our cash flows are affected by volatility in prevailing crude oil and natural gas prices and crack spreads (the difference between crude oil prices and refined product sale 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 and specialty products.



**Table of Contents**

*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 \$9.7 million and our fuel product segment cost of sales by \$9.1 million on an annual basis based on our results for the three months ended March 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 six months forward and for 50% to 70% of our anticipated crude oil purchases related to our specialty products production.

*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 \$2.4 million on an annual basis based on our results for the three months ended March 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.

*Crack Spread Volatility*

Our profitability and cash flows are also significantly impacted by the crack spreads we experience. Crack spreads represent the difference between the prices we are able to realize for our fuel products and the cost of the crude oil we must purchase to produce those products. Holding other variables constant, and excluding the impact of our current hedges, we expect a \$0.50 change in the Gulf Coast 2/1/1 crack spread per barrel would change our annual fuel products segment gross profit by \$4.5 million based on our results for the three months ended March 31, 2006.

*Crack Spread Hedging Policy*

In order to manage our exposure to crack spreads, we enter into fuels product margin swap and collar contracts. We began to implement this policy in October 2004. Our policy is to enter into derivative contracts to hedge our refining margins for a period no greater than five years and for no more than 75% of anticipated fuels production. 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 refining margins for a rolling two-year period for at least 40%, and no more than 80%, of our anticipated fuels production.

The historical impact of fair value fluctuations in our derivative instruments has been reflected in the realized/unrealized gain (loss) on derivative instruments line items in our consolidated statements of operations. As a result, gain (loss) on derivative transactions recognized in our

**Table of Contents**

historical financial statements may not be consistent with future periods. Effective April 1, 2006, we restructured and designated certain of our derivative contracts for our fuel products segment as cash flow hedges of future crude oil purchases or fuel product sales, to the extent they qualify for hedge accounting.

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 Note 3 Derivatives in our unaudited consolidated financial statements and Note 7 Derivatives in our consolidated financial statements for a discussion of the accounting treatment for the various types of derivative transactions, and a further discussion of our derivatives policy.

**Table of Contents***Existing Derivative Instruments*

The following tables provide information about our derivative instruments as of March 31, 2006:

**2006 Derivative Transactions**

<b>Crude Oil Put/Call Spread</b>		<b>Lower Put</b>	<b>Upper Put</b>	<b>Call Floor</b>	<b>Call Ceiling</b>
<b>Contracts Expiration Dates</b>	<b>Barrels</b>	<b>(\$/Bbl)</b>	<b>(\$/Bbl)</b>	<b>(\$/Bbl)</b>	<b>(\$/Bbl)</b>
April 2006	240,000	\$ 45.85	\$ 55.58	\$ 65.58	\$ 75.58
May 2006	248,000	52.60	62.60	72.60	82.60
June 2006	240,000	51.06	61.06	71.06	81.06
<b>Totals</b>	728,000				
<b>Average price</b>		\$ 49.87	\$ 59.78	\$ 69.78	\$ 79.78

<b>Crack Spread Swap Contracts Expiration Dates</b>	<b>Barrels</b>	<b>(\$/Bbl)</b>
Second Quarter 2006	1,039,000	8.94
Third Quarter 2006	1,043,000	8.61
Fourth Quarter 2006	1,043,000	8.25
<b>Annual Totals</b>	3,125,000	
<b>Average Price</b>		\$ 8.60

<b>Crack Spread Collar Contracts Expiration Dates</b>	<b>Barrels</b>	<b>Put Option Strike Price (\$/Bbl)</b>	<b>Call Option Strike Price (\$/Bbl)</b>
Second Quarter 2006	680,000	\$ 7.82	\$ 10.15
Third Quarter 2006	685,000		