Calumet Specialty Products Partners, L.P.
Form 10-Q
May 09, 2014

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

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 000-51734

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

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

(317) 328-5660
(Registrant's Telephone Number, Including Area Code)
None
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No x
At May 9, 2014, there were 69,317,278 common units outstanding.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
QUARTERLY REPORT
For the Three Months Ended March 31, 2014
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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”) includes certain “forward-looking statements.” These statements can be identified by the use of forward-looking terminology including “may,” “intend,” “believe,” “expect,” “anticipate,” “estimate,” “continue,” or other similar words. The statements regarding (i) estimated capital expenditures as a result of required audits or required operational changes or other environmental and regulatory liabilities, (ii) estimated capital expenditures as a result of our planned organic growth projects, (iii) our anticipated levels of, use and effectiveness of derivatives to mitigate our exposure to crude oil price changes, natural gas price changes and fuel products price changes, (iv) estimated costs of complying with the U.S. Environmental Protection Agency’s (“EPA”) Renewable Fuel Standards, including the prices paid for Renewable Identification Numbers (“RINs”) and (v) our ability to meet our financial commitments, minimum quarterly distributions to our unitholders, debt service obligations, debt instrument covenants, contingencies and anticipated capital expenditures, as well as other matters discussed in this Quarterly Report that are not purely historical data, are forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future sales and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause our actual results to differ from those in the forward-looking statements are those described in (i) Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” and Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (“2013 Annual Report”) and (ii) Part I, Item 3 “Quantitative and Qualitative Disclosures About Market Risk” and Part II, Item 1A “Risk Factors” in this Quarterly Report. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

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

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PART I
Item 1. Financial Statements
CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2014	December 31, 2013
	(Unaudited)	
	(In millions, except unit data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$179.6	$121.1
Accounts receivable:		
Trade	388.6	250.3
Other	5.9	13.0
	394.5	263.3
Inventories	675.9	567.4
Derivative assets	17.2	—
Prepaid expenses and other current assets	16.7	18.9
Deposits	0.5	3.7
Total current assets	1,284.4	974.4
Property, plant and equipment, net	1,221.6	1,160.4
Investment in unconsolidated affiliates	51.7	33.4
Goodwill	272.5	207.0
Other intangible assets, net	284.6	212.9
Other noncurrent assets, net	102.8	100.0
Total assets	$3,217.6	$2,688.1
LIABILITIES AND PARTNERS’ CAPITAL		
Current liabilities:		
Accounts payable	$566.2	$355.8
Accrued interest payable	15.1	22.5
Accrued salaries, wages and benefits	18.1	14.0
Other taxes payable	17.9	18.4
Other current liabilities	35.9	36.2
Current portion of long-term debt	0.4	0.4
Derivative liabilities	4.2	54.8
Total current liabilities	657.8	502.1
Deferred income tax liability	25.3	—
Pension and postretirement benefit obligations	11.5	11.7
Other long-term liabilities	1.0	1.1
Long-term debt, less current portion	1,518.4	1,110.4
Total liabilities	2,214.0	1,625.3
Commitments and contingencies		
Partners’ capital:		
Limited partners’ interest (69,317,278 units issued and outstanding as of March 31, 2014 and December 31, 2013)	975.7	1,079.6
General partner’s interest	34.6	36.6
Accumulated other comprehensive loss	(6.7)	(53.4)
Total partners’ capital	1,003.6	1,062.8

Total liabilities and partners' capital	$3,217.6	$2,688.1

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2014	2013
	(In millions, except per unit and unit data)	
Sales	$1,341.0	$1,318.6
Cost of sales	1,216.2	1,184.2
Gross profit	124.8	134.4
Operating costs and expenses:		
Selling	19.0	15.9
General and administrative	25.9	25.1
Transportation	40.4	35.4
Taxes other than income taxes	2.1	3.0
Other	2.1	0.6
Operating income	35.3	54.4
Other income (expense):		
Interest expense	(26.2)	(24.8)
Debt extinguishment costs	(89.6)	—
Realized gain (loss) on derivative instruments	6.6	(8.6)
Unrealized gain on derivative instruments	24.6	24.5
Other	(0.3)	0.7
Total other expense	(84.9)	(8.2)
Net income (loss) before income taxes	(49.6)	46.2
Income tax expense	0.2	0.2
Net income (loss)	$(49.8)	$46.0
Allocation of net income (loss):		
Net income (loss)	$(49.8)	$46.0
Less:		
General partner’s interest in net income (loss)	(1.0)	0.9
General partner’s incentive distribution rights	3.8	3.2
Non-vested share based payments	—	0.2
Net income (loss) available to limited partners	$(52.6)	$41.7
Weighted average limited partner units outstanding:		
Basic	69,622,884	62,831,155
Diluted	69,622,884	63,017,869
Limited partners’ interest basic net income (loss) per unit	$(0.76)	$0.67
Limited partners’ interest diluted net income (loss) per unit	$(0.76)	$0.66
Cash distributions declared per limited partner unit	$0.685	$0.65

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31,	
	2014	2013
	(In millions)	
Net income (loss)	$(49.8)	$46.0
Other comprehensive income (loss):		
Cash flow hedges:		
Cash flow hedge loss reclassified to net income (loss)	3.9	11.6
Change in fair value of cash flow hedges	42.4	(17.3)
Defined benefit pension and retiree health benefit plans	0.2	0.6
Foreign currency translation adjustment	0.2	—
Total other comprehensive income (loss)	46.7	(5.1)
Comprehensive income (loss) attributable to partners’ capital	$(3.1)	$40.9

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Accumulated Other Comprehensive Loss	Partners' Capital		
		General Partner	Limited Partners	Total
	(In millions)			
Balance at December 31, 2013	$(53.4)	$36.6	$1,079.6	$1,062.8
Other comprehensive income	46.7	—	—	46.7
Net income (loss)	—	2.8	(52.6)	(49.8)
Common units repurchased for phantom unit grants	—	—	(2.1)	(2.1)
Amortization of vested phantom units	—	—	0.6	0.6
Cash settlement of unit based compensation	—	—	(0.9)	(0.9)
Issuances of phantom units, net of taxes withheld	—	—	(1.2)	(1.2)
Distributions to partners	—	(4.8)	(47.7)	(52.5)
Balance at March 31, 2014	$(6.7)	$34.6	$975.7	$1,003.6

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2014	2013
	(In millions)	
Operating activities		
Net income (loss)	$(49.8)	$46.0
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	30.2	29.3
Amortization of turnaround costs	5.8	2.6
Non-cash interest expense	1.9	1.7
Non-cash debt extinguishment costs	18.7	—
Provision for doubtful accounts	0.6	0.3
Unrealized gain on derivative instruments	(24.6)	(24.5)
Non-cash equity based compensation	3.0	2.9
Other non-cash activities	1.1	0.6
Changes in assets and liabilities:		
Accounts receivable	(54.1)	(85.9)
Inventories	(51.3)	(51.4)
Prepaid expenses and other current assets	2.6	(7.1)
Derivative activity	1.5	(1.3)
Turnaround costs	(3.0)	(13.9)
Deposits	3.2	5.4
Accounts payable	163.2	82.6
Accrued interest payable	(7.4)	5.3
Accrued salaries, wages and benefits	0.3	(2.7)
Accrued income taxes payable	—	(27.6)
Other taxes payable	(1.7)	(0.7)
Other liabilities	(0.6)	5.3
Pension and postretirement benefit obligations	—	(0.7)
Net cash provided by (used in) operating activities	39.6	(33.8)
Investing activities		
Additions to property, plant and equipment	(46.3)	(21.1)
Cash paid for acquisitions, net of cash acquired	(247.0)	(117.7)
Investment in unconsolidated affiliates	(16.0)	(9.2)
Net cash used in investing activities	(309.3)	(148.0)
Financing activities		
Proceeds from borrowings — revolving credit facility	6.5	607.8
Repayments of borrowings — revolving credit facility	(6.5)	(578.6)
Repayments of borrowings — senior notes	(500.0)	—
Payments on capital lease obligations	(0.3)	(0.2)
Proceeds from other financing obligations	—	3.5
Proceeds from senior notes offering	900.0	—
Debt issuance costs	(15.9)	—
Proceeds from public offering of common units, net	—	175.5
Contribution from Calumet GP, LLC	—	3.7
Common units repurchased for phantom unit grants	(2.1)	(7.1)

Cash settlement of unit based compensation	(0.9)	—
Distributions to partners	(52.6)	(44.5)
Net cash provided by financing activities	328.2	160.1
Net increase (decrease) in cash and cash equivalents	58.5	(21.7)
Cash and cash equivalents at beginning of period	121.1	32.2
Cash and cash equivalents at end of period	$179.6	$10.5
Supplemental disclosure of noncash financing and investing activities		
Non-cash property, plant and equipment additions	$16.4	$—

See accompanying notes to unaudited condensed consolidated financial statements.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

Calumet Specialty Products Partners, L.P. (the “Company”) is a publicly traded Delaware limited partnership listed on the NASDAQ Global Select Market (“NASDAQ”) under the ticker symbol “CLMT.” The general partner of the Company is Calumet GP, LLC, a Delaware limited liability company. As of March 31, 2014, the Company had 69,317,278 limited partner common units and 1,414,638 general partner equivalent units outstanding. The general partner owns 2% of the Company and all of the incentive distribution rights (as defined in the Company’s partnership agreement), while the remaining 98% is owned by limited partners. The general partner employs all of the Company’s employees and the Company reimburses the general partner for certain of its expenses.

The Company is engaged in the production and marketing of crude oil-based specialty products including lubricating oils, white mineral oils, solvents, petrolatums, waxes, and fuel and fuel related products including gasoline, diesel, jet fuel, asphalt, heavy fuel oils and drilling fluids. The Company is also engaged in the resale of purchased crude oil to third party customers. The Company is based in Indianapolis, Indiana and has thirteen operating facilities primarily located in northwest Louisiana, northwest Wisconsin, northern Montana, western Pennsylvania, Texas, New Jersey and Oklahoma. The Company owns and leases additional facilities, primarily related to production and distribution of specialty and fuel products, throughout the United States (“U.S.”).

The unaudited condensed consolidated financial statements of the Company as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the U.S. have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the results of operations for the interim periods presented. All adjustments are of a normal nature, unless otherwise disclosed. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s 2013 Annual Report.

2. New and Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-04, Liabilities (Topic 405) — Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (“ASU 2013-04”). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements from which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. ASU 2013-04 is effective for fiscal periods (including interim periods) beginning after December 15, 2013 and should be applied retrospectively. The adoption of ASU 2013-04 did not have an impact on the Company’s unaudited condensed consolidated financial statements.

3. Acquisitions

On March 31, 2014, the Company completed the acquisition of ADF Holdings, Inc., the parent company of Anchor Drilling Fluids USA, Inc., (“Anchor”) an independent provider and marketer of drilling fluids, completion fluids and production chemicals to the oil and gas industry (“Anchor Acquisition”). In connection with the Anchor Acquisition, the Company is required to pay 50% by which the amount of taxes paid in a post-closing tax period are reduced (or a refund is actually received or credited) as a result of the utilization of post-closing transaction tax deductions in the 2014 taxable year (but, for the avoidance of doubt, no other taxable year). Total consideration was approximately $236.6 million, net of cash acquired and subject to working capital and certain other adjustments including aforementioned tax adjustments. Anchor is a corporation and will be subject to federal and state income taxes in future reporting periods. Anchor designs, manufactures and packages drilling fluid products at its locations in Texas, Oklahoma, Louisiana, Arkansas, Colorado, Utah, Wyoming, Montana, New Mexico, New York, North Dakota, Pennsylvania and Ohio. The Anchor Acquisition was financed by using a portion of the net proceeds of $884.1 million from the Company’s March 2014 private placement of 6.50% senior notes due April 15, 2021. The Company believes the Anchor Acquisition increases its position in the specialty products market, expands its geographic reach and increases its asset diversity.

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On February 28, 2014, the Company completed the acquisition of substantially all of the assets of United Petroleum, LLC, a marketer and distributor of high performance lubricants, for aggregate consideration of approximately $10.4 million, subject to certain purchase price adjustments (“United Petroleum Acquisition”). The United Petroleum Acquisition was financed with cash on hand. The Company believes the acquisition increases its position in the specialty lubricants market.

On December 10, 2013, the Company completed the acquisition of Bel-Ray Company, LLC, a manufacturer and global marketer of high-performance lubricants and greases, for aggregate consideration of approximately $53.6 million, net of cash acquired and excluding debt assumed (“Bel-Ray Acquisition”). Bel-Ray distributes, both domestically and internationally, a wide array of high-end specialty synthetic lubricants and greases which are used in the aerospace, automotive, energy, food, marine, military, mining, motorcycle, powersports, steel and textiles industries. The Bel-Ray Acquisition was financed by using a portion of the net proceeds of $337.4 million from the Company’s November 2013 private placement of 7.625% senior notes due January 15, 2022. The Company believes the Bel-Ray Acquisition increases its position in the specialty lubricants market, expands its geographic reach and increases its asset diversity. At closing, the Company repaid the $11.9 million of debt assumed in connection with the Bel-Ray Acquisition.

On August 9, 2013, the Company completed the acquisition of seven crude oil loading facilities and related assets in North Dakota and Montana from Murphy Oil USA, Inc. (“Murphy”) for aggregate consideration of approximately $6.2 million (“Crude Oil Logistics Acquisition”). The Crude Oil Logistics Acquisition was funded with cash on hand. As part of this acquisition, the Company assumed pipeline space on the Enbridge Pipeline System (“Enbridge Pipeline”) previously held by Murphy. The Company has the ability to transport crude oil directly from the point of lease, into the Company’s acquired crude oil loading facilities and then onto the Enbridge Pipeline where it can be routed to the Company’s refineries and/or third party customers. As part of this transaction, the Company and Murphy jointly consented to terminate an existing crude oil purchase agreement (“Murphy Crude Oil Supply Agreement”) wherein Murphy supplied the Company’s Superior refinery with up to 10,000 barrels per day of crude oil. The Company believes this acquisition expands its growing portfolio of crude oil logistics assets, while positioning the Company to purchase increased volumes of price-advantaged feedstock directly from the producers that operate in the major shale oil plays encompassing certain of the Company’s refineries.

On January 2, 2013, the Company completed the acquisition of NuStar Energy L.P.’s (“NuStar”) San Antonio, Texas refinery, together with related assets and the assumption of certain liabilities and obligations (“San Antonio Acquisition”). Total consideration for the San Antonio Acquisition was approximately $117.9 million, net of cash acquired. The refinery has total crude oil throughput capacity of 17,500 bpd and primarily produces diesel, jet fuel, gasoline, other fuel products and specialty solvents. The San Antonio Acquisition was funded with borrowings under the Company’s revolving credit facility with the balance through cash on hand. The Company believes the San Antonio Acquisition further diversifies the Company’s crude oil feedstock slate, operating asset base and geographic presence.

Purchase Price Allocation

The Anchor and United Petroleum Acquisitions purchase price allocations have not yet been finalized due to the timing of the closing of the acquisitions. The final determination of fair value for assets and liabilities will be completed as soon as the information necessary to complete the analysis is obtained. The assets and results of the operations from such assets acquired as a result of the San Antonio and Crude Oil Logistics Acquisitions have been included in the fuel products segments since their dates of acquisition, January 2, 2013 and August 9, 2013, respectively. The assets and results of operations from such assets acquired as a result of the Bel-Ray, United Petroleum and Anchor Acquisitions have been included in the specialty products segment since their dates of acquisition, December 10, 2013, February 28, 2014 and March 31, 2014, respectively.

The allocations of the aggregate purchase prices to assets acquired and liabilities assumed for acquisitions are as follows (in millions):

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	2014 Acquisitions		2013 Acquisitions		
	Anchor	United Petroleum	Bel-Ray	Crude Oil Logistics	San Antonio
Accounts receivable	$77.7	$—	$4.3	$—	$—
Inventories	57.0	0.2	11.1	—	17.0
Prepaid expenses and other current assets	0.4	—	0.6	0.1	—
Property, plant and equipment, net	35.0	—	6.5	0.9	100.7
Investment in unconsolidated affiliates	2.5	—	—	—	—
Goodwill	60.4	5.1	9.1	5.2	5.7
Other intangible assets, net	74.0	5.1	41.4	—	—
Other noncurrent assets, net	0.5	—	0.3	—	—
Accounts payable	(43.9)	—	(3.9)	—	—
Accrued salaries, wages and benefits	(0.3)	—	(1.3)	—	(0.1)
Other taxes payable	(1.2)	—	(1.7)	—	—
Other current liabilities	(0.2)	—	(0.8)	—	(5.4)
Current portion of long-term debt	—	—	(11.9)	—	—
Deferred income tax liability	(25.3)	—	—	—	—
Other long-term liabilities	—	—	(0.1)	—	—
Total purchase price, net of cash acquired	$236.6	$10.4	$53.6	$6.2	$117.9

Intangible Assets

The components of intangible assets listed in the table above, based upon preliminary third party appraisals, were as follows (in millions):

	Anchor March 31, 2014		United Petroleum February 28, 2014		Bel-Ray December 10, 2013	
	Amount	Life (Years)	Amount	Life (Years)	Amount	Life (Years)
Customer relationships	$54.4	20	$5.1	20	$28.6	30
Tradenames	17.9	21	—	—	4.2	18
Trade secrets	—	—	—	—	8.5	18
Non-competition agreements	1.7	4	—	—	0.1	6
Totals	$74.0		$5.1		$41.4	
Weighted average amortization period		20		20		26

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Goodwill

The Company recorded the following goodwill (in millions):

	Amount	Business Segment
Anchor Acquisition (1) (3)	$60.4	Specialty Products
United Petroleum Acquisition (1)	$5.1	Specialty Products
Bel-Ray Acquisition (1)	$9.1	Specialty Products
Crude Oil Logistics Acquisition (2)	$5.2	Fuel Products
San Antonio Acquisition (1)	$5.7	Fuel Products

(1) Goodwill recognized relates primarily to enhancing the Company’s strategic platform for expansion in the respective business segment noted above.