Calumet Specialty Products Partners, L.P.
Form 10-Q
August 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

On August 7, 2015, there were 75,760,218 common units outstanding.

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CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.
QUARTERLY REPORT
For the Three and Six Months Ended June 30, 2015
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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 and estimated annual EBITDA contributions from such 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 Standard, including the prices paid for Renewable Identification Numbers (“RINs”), (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 and (vi) our access to capital to fund capital expenditures and our working capital needs and our ability to obtain debt or equity financing on satisfactory terms, 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, 2014 (“2014 Annual Report”), (ii) Part II, Item 1A “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (“Q1 Quarterly Report”) and (iii) 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

	June 30, 2015	December 31, 2014
	(Unaudited)	
	(In millions, except unit data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$11.7	$8.5
Accounts receivable:		
Trade	295.8	326.0
Other	14.4	23.8
	310.2	349.8
Inventories	553.3	513.5
Derivative assets	1.2	23.2
Prepaid expenses and other current assets	10.4	9.2
Deferred income taxes	6.1	2.3
Total current assets	892.9	906.5
Property, plant and equipment, net	1,588.6	1,464.4
Investment in unconsolidated affiliates	170.6	137.3
Goodwill	245.8	245.8
Other intangible assets, net	235.8	257.5
Other noncurrent assets, net	99.5	108.3
Total assets	$3,233.2	$3,119.8
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$434.9	$419.9
Accrued interest payable	32.5	37.6
Accrued salaries, wages and benefits	29.2	21.9
Other taxes payable	19.0	17.9
Other current liabilities	67.5	40.0
Current portion of long-term debt	0.6	0.6
Derivative liabilities	18.3	5.6
Total current liabilities	602.0	543.5
Deferred income taxes	22.4	32.3
Pension and postretirement benefit obligations	19.2	20.0
Other long-term liabilities	0.9	0.9
Long-term debt, less current portion	1,717.0	1,712.9
Total liabilities	2,361.5	2,309.6
Commitments and contingencies		
Partners' capital:		
Limited partners' interest (75,760,218 units and 69,452,233 units, issued and outstanding as of June 30, 2015 and December 31, 2014, respectively)	841.1	765.9
General partner's interest	32.9	30.6
Accumulated other comprehensive income (loss)	(2.3)	13.7
Total partners' capital	871.7	810.2

Total liabilities and partners’ capital	$3,233.2	$3,119.8

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions, except per unit and unit data)			
Sales	$1,156.2	$1,434.9	$2,174.8	$2,775.9
Cost of sales	953.5	1,335.9	1,776.9	2,552.1
Gross profit	202.7	99.0	397.9	223.8
Operating costs and expenses:				
Selling	37.8	40.7	76.2	59.7
General and administrative	31.7	20.9	70.9	46.8
Transportation	42.3	41.3	84.3	81.7
Taxes other than income taxes	4.0	3.6	8.0	5.7
Other	3.2	2.8	6.1	4.9
Operating income (loss)	83.7	(10.3)	152.4	25.0
Other income (expense):				
Interest expense	(27.4)	(28.7)	(54.4)	(54.9)
Debt extinguishment costs	(46.6)	—	(46.6)	(89.6)
Realized gain (loss) on derivative instruments	(14.0)	6.0	(5.1)	12.6
Unrealized gain (loss) on derivative instruments	5.2	23.6	(22.7)	48.2
Loss from unconsolidated affiliates	(8.2)	(1.0)	(12.7)	(1.2)
Other	0.7	0.2	1.5	0.1
Total other income (expense)	(90.3)	0.1	(140.0)	(84.8)
Net income (loss) before income taxes	(6.6)	(10.2)	12.4	(59.8)
Income tax benefit	(9.1)	(1.9)	(13.9)	(1.7)
Net income (loss)	$2.5	$(8.3)	$26.3	$(58.1)
Allocation of net income (loss):				
Net income (loss)	$2.5	$(8.3)	$26.3	$(58.1)
Less:				
General partner’s interest in net income (loss)	—	(0.2)	0.5	(1.2)
General partner’s incentive distribution rights	4.2	3.9	8.4	7.7
Non-vested share based payments	—	—	—	—
Net income (loss) available to limited partners	$(1.7)	$(12.0)	$17.4	$(64.6)
Weighted average limited partner units outstanding:				
Basic	76,092,517	69,604,669	73,675,251	69,614,055
Diluted	76,092,517	69,604,669	73,730,189	69,614,055
Limited partners’ interest basic and diluted net income (loss) per unit	$(0.02)	$(0.17)	$0.23	$(0.93)
Cash distributions declared per limited partner unit	$0.685	$0.685	$1.37	$1.37

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In millions)			
Net income (loss)	$2.5	$(8.3)	$26.3	$(58.1)
Other comprehensive income (loss):				
Cash flow hedges:				
Cash flow hedge (gain) loss reclassified to net income (loss)	(11.5)	(1.1)	(9.8)	2.8
Change in fair value of cash flow hedges	(1.1)	8.1	(6.2)	50.5
Defined benefit pension and retiree health benefit plans	0.1	—	0.3	0.2
Foreign currency translation adjustment	—	0.1	(0.3)	0.3
Total other comprehensive income (loss)	(12.5)	7.1	(16.0)	53.8
Comprehensive income (loss) attributable to partners' capital	$(10.0)	$(1.2)	$10.3	$(4.3)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Accumulated Other Comprehensive Income (Loss)	Partners' Capital		
		General Partner	Limited Partners	Total
	(In millions)			
Balance at December 31, 2014	$13.7	$30.6	$765.9	$810.2
Other comprehensive loss	(16.0)	—	—	(16.0)
Net income	—	8.9	17.4	26.3
Common units repurchased for phantom unit grants	—	—	(3.6)	(3.6)
Amortization of vested phantom units	—	—	1.1	1.1
Issuances of phantom units, net of taxes withheld	—	—	(1.4)	(1.4)
Proceeds from public offerings of common units, net	—	—	161.5	161.5
Contributions from Calumet GP, LLC	—	3.5	—	3.5
Distributions to partners	—	(10.1)	(99.8)	(109.9)
Balance at June 30, 2015	$(2.3)	$32.9	$841.1	$871.7

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

	Six Months Ended June 30,	
	2015	2014
	(In millions)	
Operating activities		
Net income (loss)	$26.3	$(58.1)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	71.4	65.6
Amortization of turnaround costs	12.7	11.9
Non-cash interest expense	2.9	3.5
Non-cash debt extinguishment costs	9.1	18.7
Provision for doubtful accounts	0.2	1.2
Unrealized (gain) loss on derivative instruments	22.7	(48.2)
Non-cash equity based compensation	5.5	2.9
Deferred income tax benefit	(14.1)	(1.9)
Lower of cost or market inventory adjustment	0.8	(2.9)
Losses from unconsolidated affiliates	12.7	1.2
Other non-cash activities	3.9	2.1
Changes in assets and liabilities:		
Accounts receivable	39.4	(120.6)
Inventories	(40.6)	(86.7)
Prepaid expenses and other current assets	4.5	(1.8)
Derivative activity	(3.5)	3.8
Turnaround costs	(5.9)	(22.2)
Accounts payable	(7.0)	162.3
Accrued interest payable	(5.1)	20.9
Accrued salaries, wages and benefits	1.6	(16.0)
Other taxes payable	1.3	(1.2)
Other liabilities	21.7	1.9
Pension and postretirement benefit obligations	(0.5)	(0.5)
Net cash provided by (used in) operating activities	160.0	(64.1)
Investing activities		
Additions to property, plant and equipment	(153.2)	(105.5)
Cash paid for acquisitions, net of cash acquired	—	(234.0)
Investment in unconsolidated affiliates	(46.0)	(37.5)
Proceeds from sale of property, plant and equipment	0.2	—
Net cash used in investing activities	(199.0)	(377.0)
Financing activities		
Proceeds from borrowings — revolving credit facility	637.3	390.0
Repayments of borrowings — revolving credit facility	(685.0)	(330.8)
Repayments of borrowings — senior notes	(275.0)	(500.0)
Payments on capital lease obligations	(3.5)	(0.5)
Proceeds from senior notes offering	322.6	900.0
Debt issuance costs	(5.6)	(16.0)
Proceeds from public offerings of common units, net	161.5	—
Contributions from Calumet GP, LLC	3.5	—
Common units repurchased and taxes paid for phantom unit grants	(3.6)	(2.1)
Cash settlement of unit based compensation	—	(0.9)

Distributions to partners	(110.0)	(105.1)
Net cash provided by financing activities	42.2	334.6
Net increase (decrease) in cash and cash equivalents	3.2	(106.5)
Cash and cash equivalents at beginning of period	8.5	121.1
Cash and cash equivalents at end of period	$11.7	$14.6
Supplemental disclosure of non-cash financing and investing activities		
Non-cash property, plant and equipment additions	$61.9	$25.4

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 June 30, 2015, the Company had 75,760,218 limited partner common units and 1,546,126 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 and waxes and fuel and fuel related products including gasoline, diesel, jet fuel, asphalt and heavy fuel oils, in addition to oilfield services and products. The Company is also engaged in the resale of purchased crude oil to third party customers. The Company is based in Indianapolis, Indiana and owns specialty and fuel products facilities primarily located in northwest Louisiana, northwest Wisconsin, northern Montana, western Pennsylvania, Texas, New Jersey, eastern Missouri and North Dakota. The Company owns and leases oilfield services locations in Texas, Oklahoma, Louisiana, Arkansas, Colorado, Utah, Wyoming, Montana, New Mexico, New York, North Dakota, Pennsylvania and Ohio. The Company owns and leases additional facilities, primarily related to production and distribution of specialty, fuel and oilfield services products, throughout the United States ("U.S.").

The unaudited condensed consolidated financial statements of the Company as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 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 and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's 2014 Annual Report.

2. Summary of Significant Accounting Policies

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 was originally effective for fiscal periods (including interim periods) beginning after December 15, 2016. In June 2015, the FASB voted to defer the effective date by one year, with early adoption permitted as of the original effective date. The final ASU reflecting these changes is expected to be issued later this year. ASU 2014-09 allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 amends the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal periods (including interim periods) beginning after December 15, 2015 and early adoption is permitted. The adoption of ASU 2015-02 is not expected to have an impact on the Company's condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be recognized in the balance sheet as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 also requires the amortization of debt issuance costs to be reported as interest expense. ASU 2015-03 is effective for fiscal periods (including interim periods) beginning after December 15, 2015 and early adoption is permitted. ASU 2015-03 must be applied retrospectively, where the balance sheet of each presented individual period is adjusted to indicate the period-specific impact of using the new guidance. The Company has not yet adopted ASU 2015-03, but the impact of adopting would result in the Company reclassifying approximately $32.3 million and $34.7 million, as of June 30, 2015 and December 31, 2014, respectively, of deferred debt issuance costs from other noncurrent assets to long-term debt in the condensed consolidated balance sheets.

In April 2015, the FASB issued ASU No. 2015-04, Compensation - Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets (“ASU 2015-04”). ASU 2015-04 provides guidance for the measuring of assets in defined benefit pension plans and other retirement plans if they are on fiscal years that do not end on the last day of a month. ASU 2015-04 is effective for fiscal periods (including interim periods) beginning after December 15, 2015 and early adoption is permitted. The adoption of ASU 2015-04 is not expected to have an impact on the Company’s condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (“ASU 2015-05”). ASU 2015-05 provides guidance to determine whether a cloud computing agreement includes a software license or should be considered as a service agreement. ASU 2015-05 is effective for fiscal periods (including interim periods) beginning after December 15, 2015 and early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-06, Earnings Per Share (Topic 260) - Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions (“ASU 2015-06”). ASU 2015-06 provides guidance for calculating historical earnings per unit under the two-class method, stating that the earnings or losses of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner interest. ASU 2015-06 is effective for fiscal periods (including interim periods) beginning after December 15, 2015 and early adoption is permitted. ASU 2015-06 should be applied retrospectively. The adoption of ASU 2015-06 is not expected to have an impact on the Company’s condensed consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (“ASU 2015-07”). ASU 2015-07 provides guidance that amends the required disclosure of investments for which fair value is measured at net asset value per share (or its equivalent). The amendments remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 is effective for fiscal periods (including interim periods) beginning after December 15, 2015 and early adoption is permitted. ASU 2015-07 should be applied retrospectively. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

In May 2015, the FASB issued ASU 2015-08, Business Combinations (Topic 805) - Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Bulletin No. 115 (“ASU 2015-08”). The amendments in ASU 2015-08 amend various SEC paragraphs included in the FASB’s Accounting Standards Codification to reflect the issuance of Staff Accounting Bulletin No. 115 (“SAB 115”). SAB 115 rescinds portions of the interpretive guidance included in the SEC’s Staff Accounting Bulletins series and brings existing guidance into conformity with ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting,” which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The Company adopted the amendments in ASU 2015-08, effective May 8, 2015, as the amendments in the update are effective upon issuance. The adoption did not have an impact on the Company’s condensed consolidated financial statements.

In June 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements (“ASU 2015-10”). With regard to fair value measurement disclosures, ASU 2015-10 clarified that, for nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, an entity should clearly indicate that the fair value information presented is not as of the period’s end as well as the date or period that the measurement was taken. The Company adopted ASU 2015-10, effective June 12, 2015, as the change was effective upon issuance. The adoption did not have an impact on the Company's condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefits Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962) and Health and Welfare Benefit Plans (Topic 965): I. Fully Benefit-Responsive Investment Contracts; II. Plan Investment Disclosures; and III. Measurement Date Practical Expedient ("ASU 2015-12"). This three-part ASU simplifies current benefit plan accounting and requires (i) fully benefit-responsive investment contracts to be measured, presented, and disclosed only at contract value and accordingly removes the requirement to reconcile their contract value to fair value; (ii) benefit plans to disaggregate their investments measured using fair value by general type, either on the face of the financial statements or in the notes to the financial statements; (iii) the net appreciation or depreciation in

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investments for the period to be presented in the aggregate rather than by general type, and removes certain disclosure requirements relevant to individual investments that represent five percent or more of net assets available for benefits. Further, the amendments in this ASU eliminate the requirement to disclose the investment strategy for certain investments that are measured using Net Asset Value ("NAV") per share using the practical expedient in the FASB ASC Topic 820. Part III of the ASU provides a practical expedient to permit employee benefit plans to measure investments and investment-related accounts as of the month-end that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with a month-end, while requiring certain additional disclosures. The amendments in Parts I and II of this standard are effective retrospectively for fiscal years beginning after December 15, 2015 and early adoption is permitted. The amendments in Part III of this standard are effective prospectively for fiscal years beginning after December 15, 2015 and early adoption is permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

3. Acquisitions

On August 1, 2014, the Company completed the acquisition of substantially all of the assets of privately-held Specialty Oilfield Solutions, Ltd. ("SOS") for aggregate consideration of approximately $29.6 million, net of cash acquired ("SOS Acquisition"). SOS is a full-service drilling fluids and solids control company with operations in the Eagle Ford, Marcellus and Utica shale formations. The SOS Acquisition was financed with borrowings under the Company's revolving credit facility. The Company believes the SOS Acquisition increases its sales into the oilfield services market, expands its geographic reach and increases its asset diversity.

On March 31, 2014, the Company completed the acquisition of 100% of the membership interests 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 exploration industry ("Anchor Acquisition"). Total consideration was approximately $223.6 million, net of cash acquired. In connection with the Anchor Acquisition, the Company is required to pay the sellers 50% of the amount of taxes paid in a post-closing tax period that 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), which is estimated to be $1.0 million as of June 30, 2015. 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 approximately $884.0 million from the Company's March 2014 private placement of 6.50% senior notes due April 15, 2021. The Company believes the Anchor Acquisition further expands its specialty products offering, increases its sales into the oilfield services market, expands its geographic reach and increases its asset diversity.

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

There have been no changes to the purchase price allocation, goodwill or intangible assets for the SOS, Anchor and United Petroleum Acquisitions since December 31, 2014.

Results of Sales and Earnings

The following financial information reflects sales and operating loss of the Anchor Acquisition included in the unaudited condensed consolidated statements of operations for the six months ended June 30, 2015 (in millions):

	Six Months Ended June 30, 2015
Sales	$151.5
Operating loss	$(24.3)

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information reflects the unaudited condensed consolidated results of operations of the Company as if the Anchor Acquisition had taken place on January 1, 2014 (in millions, except for per unit data):

	Six Months Ended June 30, 2014
Sales	$2,858.4
Net loss	$(64.3)
Limited partners’ interest net loss per unit — basic and diluted	$(1.02)

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

4. Inventories

The cost of inventory is recorded using the last-in, first-out ("LIFO") method. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation. Costs include crude oil and other feedstocks, labor, processing costs and refining overhead costs. Inventories are valued at the lower of cost or market value. The replacement cost of these inventories, based on current market values, would have been $50.9 million and $18.9 million lower as of June 30, 2015 and December 31, 2014, respectively.

Inventories consist of the following (in millions):

	June 30, 2015	December 31, 2014
Raw materials	$100.8	$77.8
Work in process	80.1	75.4
Finished goods	372.4	360.3
	$553.3	$513.5

Under the LIFO method, the most recently incurred costs are charged to cost of sales and inventories are valued at the earliest acquisition costs. In addition, the use of the LIFO inventory method may result in increases or decreases to cost of sales in years that inventory volumes decline as the result of charging cost of sales with LIFO inventory costs generated in prior periods. In periods of rapidly declining prices, LIFO inventories may have to be written down to market value due to the higher costs assigned to LIFO layers in prior periods. Such write downs are subject to reversal in subsequent periods, not to exceed LIFO cost, if prices recover. During the three months ended June 30, 2015 and 2014, the Company recorded $12.4 million and $1.6 million of gains, respectively, in cost of sales in the condensed consolidated statements of operations due to the lower of cost or market valuation. During the six months ended June 30, 2015 and 2014, the Company recorded $0.8 million of losses and $2.9 million of gains, respectively, in cost of sales in the condensed consolidated statements of operations due to the lower of cost or market valuation.

5. Investment in Unconsolidated Affiliates

Dakota Prairie Refining, LLC

On February 7, 2013, the Company entered into a joint venture agreement with MDU Resources Group, Inc. ("MDU") to develop, build and operate a diesel refinery in southwestern North Dakota. The joint venture is named Dakota Prairie Refining, LLC ("Dakota Prairie"). The capitalization of the construction cost was funded through cash contributions from MDU and cash contributions from the Company and proceeds of $75.0 million from an unsecured syndicated term loan facility with the joint venture as the borrower which is expected to be repaid by the Company through its allocation of profits from the joint venture. The term loan facility was funded in April 2013. Additionally, MDU and the Company may make cash contributions to fund working capital needs. The joint venture allocates profits on a 50%/50% basis to the Company and MDU. The joint venture is governed by a board of managers comprised of representatives from both the Company and MDU. MDU is providing natural gas and electricity utility services. The Company is providing refinery operations, crude oil procurement and refined product marketing expertise to the joint venture. Dakota Prairie reached mechanical completion and was commissioned in April 2015 and commenced sales of finished products in May 2015.

The Company accounts for its ownership in the Dakota Prairie joint venture under the equity method of accounting. As of June 30, 2015 and December 31, 2014, the Company had an investment of $144.6 million and $117.2 million, respectively, in Dakota Prairie, primarily related to the development and operations of the refinery.

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The following represents summary financial information for Dakota Prairie, presented at 100% (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,
	2015	2014	