GENETIC TECHNOLOGIES LTD
Form 20-F
October 31, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended June 30, 2018**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report . . . . . .

For the transition period from to

Commission file number 0-51504

GENETIC TECHNOLOGIES LIMITED

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

AUSTRALIA
(Jurisdiction of incorporation or organization)

60-66 Hanover Street, Fitzroy, Victoria, 3065, Australia

Telephone: 011 61 3 8412 7000; Facsimile: 011 61 3 8412 7040
(Address of principal executive offices)

Kevin Fischer

Telephone: 011 61 3 8412 7000; Facsimile: 011 61 3 8412 7040

Email: kevin.fischer@gtglabs.com

60-66 Hanover Street, Fitzroy, Victoria, 3065, Australia
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act. **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

American Depositary Shares each representing 150 Ordinary Shares

and evidenced by American Depositary Receipts
Title of each Class

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **None**

Number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

2,435,282,724 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Emerging growth company o

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o Yes o No

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The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

o Yes o No

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INTRODUCTION

In this Annual Report, the Company, Genetic Technologies , we, us and our refer to Genetic Technologies Limited and its consolidated subsidiaries.

Our consolidated financial statements are set out on pages F1 to F39 of this Annual Report (refer to Item 18 Financial Statements).

References to the ADSs are to our ADSs described in Item 12.D American Depositary Shares and references to the Ordinary Shares are to our Ordinary Shares described in Item 10.A Share Capital .

Our fiscal year ends on June 30 and references in this Annual Report to any specific fiscal year are to the twelve month period ended on June 30 of such year.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that involve risks and uncertainties. We use words such as anticipates , believes , plans , expects , future , intends and similar expressions to identify such forward-looking statements. This Annual Report also contains forward-looking statements attributed to certain third parties relating to their estimates regarding the growth of Genetic Technologies and related service markets and spending. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Annual Report. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described below under the caption Risk Factors and elsewhere in this Annual Report.

Although we believe that the expectations reflected in such forward-looking statements are reasonable at this time, we can give no assurance that such expectations will prove to be correct. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Important factors that could cause actual results to differ materially from our expectations are contained in cautionary statements in this Annual Report including, without limitation, in conjunction with the forward-looking statements included in this Annual Report and specifically under Item 3.D Risk Factors .

All subsequent written and oral forward-looking statements attributable to us are expressly qualified in their entirety by reference to these cautionary statements.

ENFORCEMENT OF LIABILITIES AND SERVICE OF PROCESS

We are incorporated under the laws of Western Australia in the Commonwealth of Australia. The majority of our directors and executive officers, and any experts named in this Annual Report, reside outside the U.S. Substantially all of our assets, our directors and executive officers assets and such experts assets are located outside the U.S. As a result, it may not be possible for investors to affect service of process within the U.S. upon us or our directors, executive officers or such experts, or to enforce against them or us in U.S. courts, judgments obtained in U.S. courts based upon the civil liability provisions of the federal securities laws of the U.S. In addition, we have been advised by our Australian solicitors that there is doubt that the courts of Australia will enforce against us, our directors, executive officers and experts named herein, judgments obtained in the U.S. based upon the civil liability provisions of the federal securities laws of the U.S. or will enter judgments in original actions brought in Australian courts based upon the federal securities laws of the U.S.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Item 3.A Selected Financial Data

The following selected financial data for the five years ended June 30, 2018 is derived from the audited consolidated financial statements of Genetic Technologies Limited, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, which became effective for our Company as of our fiscal year ended June 30, 2006.

The balance sheet data as of June 30, 2018 and 2017 and the statement of comprehensive income/(loss) data for the 2018, 2017 and 2016 fiscal years are derived from our audited consolidated financial statements which are included in this Annual Report. Balance sheet data as of June 30, 2016, 2015 and 2014 and statement of comprehensive income/ (loss) data for the 2015 and 2014 financial years are derived from our audited consolidated financial statements which are not included in this Annual Report. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

All amounts are stated in Australian dollars as of June 30, as noted.

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GENETIC TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/ (LOSS)

FOR 2018, 2017, 2016, 2015 AND 2014

	Year ended June 30, 2018 AUD	Year ended June 30, 2017 AUD	Year ended June 30, 2016 AUD	Year ended June 30, 2015 AUD	Year ended June 30, 2014 AUD
Revenue from operations					
Genetic testing services	189,254	518,506	824,586	2,011,918	4,564,280
Less: cost of sales	(300,088)	(492,417)	(743,060)	(891,243)	(1,837,729)
Gross profit from operations	(110,834)	26,089	81,526	1,120,675	2,726,551
Other revenue			300,548	1,027,151	863,832
Gain on deconsolidation of subsidiary					761,361
Selling and marketing expenses	(1,066,404)	(2,721,474)	(3,186,497)	(4,504,299)	(6,251,595)
General and administrative expenses	(3,015,818)	(3,109,530)	(3,429,357)	(4,222,988)	(3,173,109)
Licensing, patent and legal costs			(103,581)	(435,418)	(1,079,199)
Laboratory, research and development costs	(2,210,498)	(2,366,334)	(2,584,752)	(2,851,665)	(3,298,127)
Finance costs	(28,843)	(31,995)	(28,889)	(264,694)	(744,199)
Foreign exchange gains reclassified on liquidation of subsidiary	527,049				
Gain on disposal of business				1,396,798	
Impairment of intangible asset expense		(544,694)			
Fair value loss on ImmunAid option fee				(795,533)	
Share of net loss of associates accounted for using the equity method					(362,682)
Fair value gain/ (loss) on financial liabilities at fair value through profit or loss				349,246	(648,374)
Non-operating income and expenses	441,476	344,112	492,037	370,557	1,071,072
Profit/(loss) from continuing operations before income tax	(5,463,872)	(8,403,826)	(8,458,965)	(8,810,170)	(10,134,469)
Net profit from discontinued operation					
Profit/(loss) before income tax	(5,463,872)	(8,403,826)	(8,458,965)	(8,810,170)	(10,134,469)
Income tax expense					
Profit/(loss) for the year	(5,463,872)	(8,403,826)	(8,458,965)	(8,810,170)	(10,134,469)
Other comprehensive income/(loss)					
Exchange gains/(losses) on translation of controlled foreign operations	(522,966)	(130,655)	1,307,219	414,005	(149,162)
Exchange gains/(losses) on translation of non-controlled foreign operations					86
Other comprehensive income/(loss) for the year, net of tax	(522,966)	(130,655)	1,307,219	414,005	(149,076)
Total comprehensive profit/(loss) for the year	(5,986,481)	(8,534,481)	(7,151,746)	(8,396,165)	(10,283,545)
Profit/(loss) for the year is attributable to:					
Owners of Genetic Technologies Limited	(5,463,872)	(8,403,826)	(8,458,965)	(8,810,170)	(10,125,197)
Non-controlling interests					(9,272)
Total profit/(loss) for the year	(5,463,872)	(8,403,826)	(8,458,965)	(8,810,170)	(10,134,469)
Total comprehensive profit/(loss) for the year is attributable to:					
Owners of Genetic Technologies Limited	(5,986,838)	(8,534,481)	(7,151,746)	(8,396,165)	(10,274,359)
Non-controlling interests					(9,186)

Total comprehensive profit/(loss) for the year	(5,986,838)	(8,534,481)	(7,151,746)	(8,396,165)	(10,283,545)
Earnings/(loss) per share (cents per share)					
Basic and diluted net profit/(loss) per ordinary share	(0.22)	(0.40)	(0.49)	(0.82)	(1.76)
Weighted-average shares outstanding	2,435,282,724	2,121,638,888	1,715,214,158	1,072,803,358	574,557,747

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GENETIC TECHNOLOGIES LIMITED

CONSOLIDATED BALANCE SHEET DATA
FOR 2018, 2017, 2016, 2015 AND 2014

	As of June 30, 2018 AUD	As of June 30, 2017 AUD	As of June 30, 2016 AUD	As of June 30, 2015 AUD	As of June 30, 2014 AUD
Assets					
Current assets	5,990,697	11,631,649	12,131,070	19,566,096	4,360,509
Non-current assets	175,284	476,648	1,158,616	1,153,636	2,368,690
Total assets	6,165,981	12,108,297	13,289,686	20,719,732	6,729,199
Liabilities					
Current liabilities	(1,450,713)	(1,465,293)	(1,332,189)	(1,735,163)	(2,318,016)
Non-current liabilities	(3,390)	(63,960)	(74,308)	(25,321)	(2,583,664)
Total liabilities	(1,454,103)	(1,529,253)	(1,406,497)	(1,760,484)	(4,901,680)
Net assets	4,711,878	10,579,044	11,883,189	18,959,248	1,827,519
Equity					
Contributed equity	122,372,662	122,382,625	115,272,576	115,247,128	90,080,492
Reserves	5,651,162	6,044,493	6,054,861	4,697,403	3,922,140
Accumulated losses	(123,311,946)	(117,848,074)	(109,444,248)	(100,985,283)	(92,175,113)
Non-controlling interests					
Total equity	4,711,878	10,579,044	11,883,189	18,959,248	1,827,519

Exchange rates

The following table sets forth, for the periods and dates indicated, certain information concerning the noon buying rate in New York City for Australian dollars expressed in U.S. dollars per $1.00 as certified for customs purposes by the Federal Reserve Bank of New York.

Period ended	At period end USD	Average rate USD	High USD	Low USD
Yearly data				
June 2014	0.9427	0.9186	0.9705	0.8715
June 2015	0.7704	0.8365	0.9488	0.7566
June 2016	0.7432	0.7289	0.7817	0.6855
June 2017	0.7676	0.7562	0.7680	0.7387
June 2018	0.7399	0.7753	0.8105	0.7355
Monthly data				
April 2018	0.7543	0.7684	0.7784	0.7543
May 2018	0.7570	0.7525	0.7595	0.7445
June 2018	0.7399	0.7498	0.7677	0.7355
July 2018	0.7438	0.7403	0.7466	0.7322
August 2018	0.7192	0.7325	0.7428	0.7192
September 2018	0.7238	0.7206	0.7278	0.7107
October 19, 2018	0.7132			

Item 3.B **Capitalization and Indebtedness**

Not applicable.

Item 3.C **Reasons for the Offer and Use of Proceeds**

Not applicable.

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Item 3.D **Risk Factors**

Before you purchase our ADSs, you should be aware that there are risks, including those described below. You should consider carefully these risk factors together with all of the other information contained elsewhere in this Annual Report before you decide to purchase our ADSs.

Risks Related to our Business and Business Strategy

A material uncertainty exists that may cast significant doubt about our Company s ability to continue as a Going concern.

For the year ending June 30, 2018, the Group incurred a total comprehensive loss of $5,986,838 (2017: $8,534,481) and net cash outflow from operations of $5,621,315 (2017: $6,813,639). As at June 30, 2018 the Group held total cash and cash equivalents of $5,487,035.

During the 2019 financial year, the Directors expect increased cash outflows from operations as the Company continues to invest resources in expanding the research & development, sales & marketing, and blockchain activities in support of the distribution of BREVAGen*plus*® and its pipeline of risk assessment products. As a result of these expected cash outflows, the Directors intend to raise new equity funding within the next twelve months in order to ensure the Company continues to hold adequate levels of available cash resources to meet creditors and other commitments. The Company has subsequent to June 30, 2018 executed an equity placement facility with Kentgrove Capital Pty Ltd whereby it has an opportunity to raise equity funding of up to $20 million in a series of individual placements of up to $1 million (or a higher amount by mutual agreement) over a period of 20 months, expiring April 7, 2020. The Company has in place an open Placement Prospectus, which provides the Company with greater flexibility should the opportunity arise to offer and issue any of the Placement Shares while this Prospectus remains open. Since June 30, 2018, the Company has issued 100,000,000 shares under this facility, resulting in cash inflows from financing of $1,350,000. In addition to this facility the Directors will also consider other sources of equity funding through traditional offerings in either Australia or the United States.

The continuing viability of the Company and its ability to continue as a going concern and meet its debts and commitments as they fall due is dependent on the satisfactory completion of planned equity raisings, which are not guaranteed.

Due to the uncertainty surrounding the timing, quantum or the ability to raise additional equity, there is a material uncertainty that may cast significant doubt on the Group s ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the Directors believe that the Group will be successful in the above matters and accordingly, have prepared the financial report on a going concern basis. As such no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Our stock price is volatile and can fluctuate significantly based on events not in our control and general industry conditions. As a result, the value of your investment may decline significantly.

The biotechnology sector can be particularly vulnerable to abrupt changes in investor sentiment. Stock prices of companies in the biotechnology industry, including ours, can swing dramatically, with little relationship to operating performance. Our stock price may be affected by a number of factors including, but not limited to:

- product development events;
- the outcome of litigation;
- decisions relating to intellectual property rights;
- the entrance of competitive products or technologies into our markets;
- new medical discoveries;
- the establishment of strategic partnerships and alliances;
- changes in reimbursement policies or other practices related to the pharmaceutical industry; or
- other industry and market changes or trends.

Since our listing on the Australian Securities Exchange in August 2000, the price of our Ordinary Shares has ranged from a low of $0.006 to a high of $0.97 per share. Further fluctuations are likely to occur due to events which are not within our control and general market conditions affecting the biotechnology sector or the stock market generally.

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In addition, low trading volume may increase the volatility of the price of our ADSs. A thin trading market could cause the price of our ADSs to fluctuate significantly more than the stock market as a whole. For example, trades involving a relatively small number of our ADSs may have a greater impact on the trading price for our ADSs than would be the case if the trading volume were higher.

The following chart illustrates the fluctuation in the price of our shares (in Australian dollars) over the last five years:

(Refer Item 9.A for more information on key data points on this chart)

(Source: Yahoo Finance: https//au.finance.yahoo.com/)

The fact that we do not expect to pay cash dividends may lead to decreased prices for our stock.

We have never declared or paid a cash dividend on our Ordinary Shares and we do not anticipate to do so in the foreseeable future. We intend to retain future cash earnings, if any, for reinvestment in the development and expansion of our business. Whether we pay cash dividends in the future will be at the discretion of our Board of Directors and may be dependent on our financial condition, results of operations, capital requirements and any other factors our Board of Directors decides is relevant. As a result, an investor may only recognize an economic gain on an investment in our stock from an appreciation in the price of our stock, which is uncertain and unpredictable. There is no guarantee that our ordinary shares will appreciate in value or even maintain the price at which an investor purchased the ordinary shares.

You may have difficulty in effecting service of legal process and enforcing judgments against us and our Management.

We are a public company limited by shares, registered and operating under the Australian *Corporations Act 2001*. The majority of our directors and officers named in this Annual Report reside outside the U.S. Substantially all, or a substantial portion of, the assets of those persons are also located outside the U.S. As a result, it may not be possible to affect service on such persons in the U.S. or to enforce, in foreign courts, judgments against such persons obtained in U.S. courts and predicated on the civil liability provisions of the federal securities laws of the U.S. Furthermore, substantially all of our directly-owned assets are located outside the U.S., and, as such, any judgment obtained in the U.S. against us may not be collectible within the U.S. There is doubt as to the enforceability in the Commonwealth of Australia, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon federal or state securities laws of the U.S., especially in the case of enforcement of judgments of U.S. courts where the defendant has not been properly served in Australia.

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Because we are not necessarily required to provide you with the same information as an issuer of securities based in the United States, you may not be afforded the same protection or information you would have if you had invested in a public corporation based in the United States.

We are exempt from certain provisions of the Securities Exchange Act of 1934, as amended, commonly referred to as the Exchange Act, that are applicable to U.S. public companies, including (i) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K; (ii) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; and (iii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time. The exempt provisions would be available to you if you had invested in a U.S. corporation.

However, in line with the Australian Securities Exchange regulations, we disclose our financial results on a semi-annual basis (which is performed under International Standard on Review Engagements) and to be fully audited annually (which is performed under International Standards on Auditing) which are required to have a limited review semi-annually and to be fully audited annually. The information, which may have an effect on our stock price on the Australian Securities Exchange, will be disclosed to the Australian Securities Exchange and also the Securities Exchange Commission. Other relevant information pertaining to our Company will also be disclosed in line with the Australian Securities Exchange regulations and information dissemination requirements for listed companies. We will provide our semi-annual results and other material information that we make public in Australia in the U.S. under the cover of an SEC Form 6-K. Nevertheless, you may not be afforded the same protection or information, which would be made available to you, were you investing in a United States public corporation because the requirements of a Form 10-Q and Form 8-K are not applicable to us.

If significant liquidity does not eventuate for our ADSs on NASDAQ, your ability to resell your ADSs could be negatively affected because there would be limited buyers for your interests.

Historically, there was virtually no trading in our ADSs through the pink sheets after the establishment of our Level I ADR Program. However, subsequent to the Level II listing of our ADSs on the NASDAQ Global Market on September 2, 2005, the trading volumes of our ADSs have increased. The Company subsequently transferred the listing of its ADSs to the NASDAQ Capital Market effective as from June 30, 2010. An active trading market for the ADSs, however, may not be maintained in the future. If an active trading market is not maintained, the liquidity and trading prices of the ADSs could be negatively affected.

In certain circumstances, holders of ADSs may have limited rights relative to holders of Ordinary Shares.

The rights of holders of ADSs with respect to the voting of Ordinary Shares and the right to receive certain distributions may be limited in certain respects by the deposit agreement entered into by us and The Bank of New York Mellon. For example, although ADS holders are entitled under the deposit agreement, subject to any applicable provisions of Australian law and of our Constitution, to instruct the depositary as to the exercise of the voting rights pertaining to the Ordinary Shares represented by the American Depositary Shares, and the depositary has agreed that it will try, as far as practical, to vote the Ordinary Shares so represented in accordance with such instructions, ADS holders may not receive notices sent by the depositary in time to ensure that the depositary will vote the Ordinary Shares. This means that, from a practical point of view, the holders of ADSs may not be able to exercise their right to vote. In addition, under the deposit agreement, the depositary has the right to restrict distributions to holders of the ADSs in the event that it is unlawful or impractical to make such distributions. We have no obligation to take any action to permit distributions to holders of our American Depositary Receipts, or ADSs. As a result, holders of ADSs may not receive distributions made by us.

Our Company has a history of incurring losses.

The business now called Genetic Technologies Limited was founded in 1989. With the exception of the year ended June 30, 2011, the Company has incurred operating losses in every year of its existence. As at June 30, 2018, the Company had accumulated losses of $123,311,946 and the extent of any future losses and whether or not the Company can generate profits in future years remains uncertain. The Company currently does not generate sufficient revenue to cover its operating expenses. We expect our capital outlays and operating expenditures to continue to increase for the foreseeable future as we continue to commercialise existing R&D capabilities, IP and introduce an enhanced BREVAGen*plus* breast cancer risk assessment test and a colon cancer risk assessment test progress development of a suite of genetic screening tests targeting both cancer and non-oncological diseases utilising the latest technology and platforms, and explore and capitalise on blockchain opportunities in the medical and biotech industries.

There is no certainty that the Company will be able to raise additional funds by issuing further shares and/or the raising of debt and, if such funds are available, on what terms the Company would be able to secure them. If we fail to generate sufficient revenue and eventually become profitable, or if we are unable to fund our continuing losses, our shareholders could lose all or part of their investments.

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There is a substantial risk that we are, or will become, a passive foreign investment company, or PFIC, which will subject our U.S. investors to adverse tax rules.

Holders of our ADSs who are U.S. residents face income tax risks. There is a substantial risk that we are, or will become, a passive foreign investment company, commonly referred to as a PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ADSs and would likely cause a reduction in the value of such ADSs. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash is considered to be an asset that produces passive income. We believe that we were a PFIC for the taxable year ended June 30, 2018 and there is a substantial risk we will be classified as a PFIC for the current taxable year. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules will apply to U.S. holders owning ADSs. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. United States residents should carefully read Item 10.E. Additional Information Taxation, United States Federal Income Tax Consequences in this Annual Report, for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ADSs.

The failure to establish sales, marketing and distribution capacity will materially impact our ability to successfully market and sell our genetic risk assessment tests

We currently have no experience in marketing, sales or distribution of genetic risk assessment tests. We announced in August 2018 that we were transitioning the BREVAGenplus commercial program from a direct salesforce in the US to an ecommerce based sales solution. To successfully establish a web based Consumer Initiated Testing (CIT) platform for the BREVAGenplus and future genetic risk assessment tests, we will have to enter into marketing arrangements with other parties who have established appropriate marketing and sales capabilities in the design and development of a suitable ecommerce platform. We may not be able to enter into marketing arrangements with any marketing party, or if such arrangements are established, our marketing partners may not be able to develop and design an ecommerce sales solution that achieves commercial success for BREVAGenplus or other future genetic risk assessment test. Failure to establish sufficient marketing capabilities through engagement with third party marketing service providers will materially impact our ability to successfully market and sell our tests.

If We Fail To Maintain An Effective System Of Internal Control Over Financial Reporting, We May Not Be Able To Accurately Report Our Financial Results Or Prevent Fraud.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to design and implement an effective system of internal control may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of the ADSs and our ordinary shares.

As of June 30, 2018 Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework (2013).* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In connection with this assessment, we identified the following material weaknesses in internal control over financial reporting as of June 30, 2018.

The Company did not maintain an adequate segregation of duties with respect to internal control over financial reporting, given we have limited accounting personnel to enable and sufficiently evidence an independent review of complex financial reporting matters.

In an effort to remediate the identified material weaknesses and to enhance our overall control environment, we have implemented key steps to ensure continuity in the finance team and ongoing training, which through the introduction of a more controlled month end closing process has provided opportunity for the finance team to take on tasks including the preparation of the month end Finance Board reports and the FY2018 Annual Report which can now be reviewed by the CFO. Refer to Item 15 of this annual report on Form 20-F for further information on our remediation activities. We cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the control deficiencies that led to our material weaknesses in our internal control over financial reporting or that they will prevent potential future material weaknesses.

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Risks related to the Company s Blockchain Projects

There is an Uncertain Regulatory Framework for Blockchain Technology. Changes to the framework could negatively affect us.

The regulatory status of blockchain technology is unclear or unsettled in many jurisdictions. It is difficult to predict how or whether governmental authorities will regulate such technologies. It is likewise difficult to predict how or whether any governmental authority may make changes to existing laws, regulations and/or rules that will affect blockchain technology and its applications. Such changes could negatively affect us in various ways, including ceasing the development of our blockchain projects or ceasing operations in a jurisdiction in the event that governmental or other actions make such operations unlawful or commercially undesirable to continue.

Blockchain technology will operate in a new and developing legal and regulatory environment. There is no established body of law or court decisions concerning blockchain and smart contracts. The Company may need to change its business model to comply with these licensing and/or registration requirements (or any other legal or regulatory requirements) in order to avoid violating applicable laws or regulations or because of the cost of such compliance. Uncertainty in how the legal and regulatory environment will develop could negatively impact the Company.

There is a risk that the Company s Blockchain Technology could be Superseded or not function as intended.

There can be no assurance that the technology being proposed to underpin the Company s blockchain applications will not be supplanted by competing protocols that improve upon, or fully replace, the Company s technology. In addition, the Company s use of blockchain may include coding errors or otherwise not function as intended, which may negatively affect its functionality.

Blockchain technology may be subject to risks of hacking and security weakness, which could have an adverse effect on the Company s projects or implementation.

Hackers or other malicious groups or organizations may attempt to interfere with the Company s blockchain in a variety of ways, including but not limited to malware attacks, denial of service attacks, consensus-based attacks, Sybil attacks, smurfing and spoofing. Furthermore, hackers or other individuals may uncover and exploit intentional or unintentional bugs or weaknesses in the network. Any of these risks if they occur could have a materially adverse effect on the Company s projects or the implementation of its blockchain applications.

Risks Related to our Industry

Our sales cycle is typically lengthy.

The sales cycle for our testing products is typically lengthy. As a result, we may expend substantial funds and management effort with no assurance of successfully selling our products or services. Our ability to obtain customers for our molecular risk assessment and predictive genetic testing services depends significantly on the perception that our services can help accelerate efforts in genomics. Our sales effort requires the effective demonstration of the benefits of our services to, and significant training of, many different departments within a potential customer. In addition, we sometimes are required to negotiate agreements containing terms unique to each customer. Our business could also be adversely affected if we expend money without any return.

If our competitors develop superior products, our operations and financial condition could be affected.

We are currently subject to increased competition from biotechnology and diagnostic companies, academic and research institutions and government or other publicly-funded agencies that are pursuing products and services which are substantially similar to our molecular risk assessment testing services, or which otherwise address the needs of our customers and potential customers. Our competitors in the predictive genetic testing and assessment market include private and public sector enterprises located in Australia, the U.S. and elsewhere. Many of the organizations competing with us are much larger and have more ready access to needed resources. In particular, they would have greater experience in the areas of finance, research and development, manufacturing, marketing, sales, distribution, technical and regulatory matters than we do. In addition, many of the larger current and potential competitors have already established name / brand recognition and more extensive collaborative relationships.

Our competitive position in the molecular risk assessment and predictive testing area is based upon, amongst other things, our ability to:

- maintain first to market advantage;

- continue to strengthen and maintain scientific credibility through the process of obtaining scientific validation and undertaken further clinical trials supported by Peer-reviewed publication in medical journals;

- create and maintain scientifically-advanced technology and offer proprietary products and services;

- attract and retain qualified personnel;

- obtain patent or other protection for our products and services;

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- obtain required government approvals and other accreditations on a timely basis; and

- successfully market our products and services.

If we are not successful in meeting these goals, our business could be adversely affected. Similarly, our competitors may succeed in developing technologies, products or services that are more effective than any that we are developing or that would render our technology and services obsolete, noncompetitive or uneconomical.

We have important relationships with external parties over whom we have limited control.

We have relationships with academic consultants and other advisers who are not employed by us. Accordingly, we have limited control over their activities and can expect only limited amounts of their time to be dedicated to our activities. These persons may have consulting, employment or advisory arrangements with other entities that may conflict with or compete with their obligations to us. Our consultants typically sign agreements that provide for confidentiality of our proprietary information and results of studies. However, in connection with every relationship, we may not be able to maintain the confidentiality of our technology, the dissemination of which could hurt our competitive position and results from operations. To the extent that our scientific consultants develop inventions or processes independently that may be applicable to our proposed products, disputes may arise as to the ownership of the proprietary rights to such information, and we may not be successful with any dispute outcomes.

We may be subject to professional liability suits and our insurance may not be sufficient to cover damages. If this occurs, our business and financial condition may be adversely affected.

Our business exposes us to potential liability risks that are inherent in the testing, manufacturing, marketing and sale of molecular risk assessment and predictive tests. The use of our products and product candidates, whether for clinical trials or commercial sale, may expose us to professional liability claims and possible adverse publicity. We may be subject to claims resulting from incorrect results of analysis of genetic variations or other screening tests performed using our services. Litigation of such claims could be costly. We could expend significant funds during any litigation proceeding brought against us. Further, if a court were to require us to pay damages to a plaintiff, the amount of such damages could be significant and severely damage our financial condition. Although we have public and product liability insurance coverage under broadform liability and professional indemnity policies, for an aggregate amount of A$60,000,000, the level or breadth of our coverage may not be adequate to fully cover any potential liability claims. To date we have not been subject to any claims, or ultimately liability, in excess of the amount of our coverage. In addition, we may not be able to obtain additional professional liability coverage in the future at an acceptable cost. A successful claim or series of claims brought against us in excess of our insurance coverage and the effect of professional liability litigation upon the reputation and marketability of our technology and products, together with the diversion of the attention of key personnel, could negatively affect our business.

We use potentially hazardous materials, chemicals and patient samples in our business and any disputes relating to improper handling, storage or disposal of these materials could be time consuming and costly.

Our research and development, production and service activities involve the controlled use of hazardous laboratory materials and chemicals, including small quantities of acid and alcohol, and patient tissue samples. We do not knowingly deal with infectious samples. We, our collaborators and service providers are subject to stringent Australian federal, state and local laws and regulations governing occupational health and safety standards, including those governing the use, storage, handling and disposal of these materials and certain waste products. However, we could be liable for accidental contamination or discharge or any resultant injury from hazardous materials, and conveyance, processing, and storage of and data on patient samples. If we, our collaborators or service providers fail to comply with applicable laws or regulations, we could be required to pay penalties or be held liable for any damages that result and this liability could exceed our financial resources. Further, future changes to environmental health and safety laws could cause us to incur additional expense or restrict our operations. To date, we have not had a reportable event or serious injury.

In addition, our collaborators and service providers may be working with these same types of hazardous materials, including hazardous chemicals, in connection with our collaborations. In the event of a lawsuit or investigation, we could be held responsible for any injury caused to persons or property by exposure to, or release of, these hazardous materials or patient samples that may contain infectious materials. The cost of this liability could exceed our resources. While we maintain broadform liability insurance coverage for these risks, in the amount of up to A$40,000,000, the level or breadth of our coverage may not be adequate to fully cover potential liability claims. To date, we have not been subject to claims, or ultimately liability, in excess of the amount of our coverage. Our broadform insurance coverage also covers us against losses arising from an interruption of our business activities as a result of the mishandling of such materials. We also maintain workers compensation insurance, which is mandatory in Australia, covering all of our workers in the event of injury.

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We depend on the collaborative efforts of our academic and corporate partners for research, development and commercialization of some of our products. A breach by our partners of their obligations, or the termination of the relationship, could deprive us of valuable resources and require additional investment of time and money.

Our strategy for research, development and commercialization of some of our products has historically involved entering into various arrangements with academic, corporate partners and others. As a result, the success of our strategy depends, in part, upon the strength of those relationships and these outside parties undertaking their responsibilities and performing their tasks to the best of their ability and responding in a timely manner. Our collaborators may also be our competitors. We cannot necessarily control the amount and timing of resources that our collaborators devote to performing their contractual obligations and we have no certainty that these parties will perform their obligations as expected or that any revenue will be derived from these arrangements.

If our collaborators breach or terminate their agreement with us or otherwise fail to conduct their collaborative activities in a timely manner, the development or commercialization of the product candidate or research program under such collaborative arrangement may be delayed. If that is the case, we may be required to undertake unforeseen additional responsibilities or to devote unforeseen additional funds or other resources to such development or commercialization, or such development or commercialization could be terminated. The termination or cancellation of collaborative arrangements could adversely affect our financial condition, intellectual property position and general operations. In addition, disagreements between collaborators and us could lead to delays in the collaborative research, development, or commercialization of certain products or could require or result in formal legal process or arbitration for resolution. These consequences could be time-consuming and expensive and could have material adverse effects on the Company.

Other than our contractual rights under our license agreements, we may be limited in our ability to convince our licensees to fulfill their obligations. If our licensees fail to act promptly and effectively, or if a dispute arises, it could have a material adverse effect on our results of operations and the price of our ordinary shares and ADSs.

We rely upon scientific, technical and clinical data supplied by academic and corporate collaborators, licensors, licensees, independent contractors and others in the evaluation and development of potential therapeutic methods. There may be errors or omissions in this data that would materially adversely affect the development of these methods.

We may seek additional collaborative arrangements to develop and commercialize our products in the future. We may not be able to negotiate acceptable arrangements in the future and, if negotiated, we have no certainty that they will be on favorable terms or if they will be successful. In addition, our partners may pursue alternative technologies independently or in collaboration with others as a means of developing treatments for the diseases targeted by their collaborative programs with us. If any of these events occur, the progress of the Company could be adversely affected and our results of operations and financial condition could suffer.

Currently our financial results depend largely on the sales of our breast cancer risk assessment test, BREVAGen*plus*.

For the near future, we expect to continue to derive a substantial majority of our revenues from sales of one product, our breast cancer risk test BREVAGen. We do not expect to recognize significant revenues from BREVAGen*plus*, a second generation BREVAGen product, until increased levels of adoption and reimbursement for this test have been established. If we are unable to increase sales of BREVAGen*plus* or successfully develop and commercialize other

tests or enhancements, our ability to achieve sustained revenues and profitability would be impacted.

If our sole laboratory facility becomes inoperable, we will be unable to perform our tests and our business will be harmed.

We do not have redundant clinical reference laboratory facilities outside of Melbourne, Australia. Our current lease of laboratory premises expires August 31, 2018. The facility and the equipment we use to perform our tests would be costly to replace and could require substantial lead time to repair or replace. The facility may be harmed or rendered inoperable by natural or man-made disasters, including flooding and power outages, which may render it difficult or impossible for us to perform our tests for some period of time. The inability to perform our tests or the backlog of tests that could develop if our facility is inoperable for even a short period of time may result in the loss of customers or harm our reputation, and we may be unable to regain those customers in the future.

If we no longer had our own facility and needed to rely on a third party to perform our tests, we could only use another facility with established state licensure and Clinical Laboratory Improvements Amendments (CLIA) accreditation under the scope of which BREVAgen*plus* tests could be performed following validation and other required procedures. We cannot assure you that we would be able to find another CLIA-certified facility willing to comply with the required procedures, that this laboratory would be willing to perform the tests on commercially reasonable terms, or that it would be able to meet our quality standards. In order to establish a redundant clinical reference laboratory facility, we would have to spend considerable time and money securing adequate space, constructing the facility, recruiting and training employees, and establishing the additional operational and administrative infrastructure necessary to support a second facility. We may not be able, or it may take considerable time, to replicate our testing processes or results in a new facility. Additionally, any new clinical reference laboratory facility would be subject to certification under CLIA and licensing by several states, including California and New York, which could take a significant amount of time and result in delays in our ability to begin operations.

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The loss of key members of our senior management team or our inability to attract and retain highly skilled scientists, clinicians and salespeople could adversely affect our business.

Our success depends largely on the skills, experience and performance of key members of our executive management team and others in key management positions. The efforts of each of these persons together will be critical as we continue to develop our technologies and testing processes, continue our international expansion and transition to a company with multiple commercialized products on offer. If we were to lose one or more of these key employees, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategies.

Our research and development programs and commercial laboratory operations depend on our ability to attract and retain highly skilled scientists and technicians, including licensed laboratory technicians, chemists, biostatisticians and engineers. We may not be able to attract or retain qualified scientists and technicians in the future due to the competition for qualified personnel among life science businesses. In addition, if there were to be a shortage of clinical laboratory scientists in coming years, this would make it more difficult to hire sufficient numbers of qualified personnel. We also face competition from universities and public and private research institutions in recruiting and retaining highly qualified scientific personnel. In addition, our success depends on our ability to attract and retain salespeople with extensive experience in oncology and close relationships with medical oncologists, pathologists and other hospital personnel. We may have difficulties sourcing, recruiting or retaining qualified salespeople, which could cause delays or a decline in the rate of adoption of our tests. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that could adversely affect our ability to support our research and development and sales programs.

FDA regulation of LDTs may result in significant changes, and our business could be adversely impacted if we fail to adapt.

Clinical laboratory tests like ours are regulated under the CLIA, as well as by applicable state laws. Diagnostic kits that are sold and distributed through interstate commerce are regulated as medical devices by the federal Food and Drug Administration (FDA). The FDA has exercised its discretion and has not subjected most Laboratory Developed Tests, or LDTs to FDA regulation, although reagents or software provided by third parties and used to perform LDTs may be subject to regulation.

The FDA claims to have regulatory authority over LDTs under the Medical Device Amendments of 1976 and has stated in the past that it would issue guidance to the industry regarding its regulatory approach. In such discussions, the FDA has indicated that it would use a risk-based approach to regulation and would direct more resources to tests with wider distribution and with the highest risk of injury, but that it will be sensitive to the need to not adversely impact patient care or innovation. In October 2014, the FDA announced its framework and timetable for implementing this guidance. We cannot predict the ultimate timing or form of any such guidance or regulation and the potential impact on our existing tests. If adopted, such a regulatory approach by the FDA may lead to an increased regulatory burden, including additional costs and delays in introducing new tests or even continuing with our current tests. While the ultimate impact of the FDA s approach is unknown, it may be extensive and may result in significant changes. Our failure to adapt to these changes could have a material adverse effect on our business.

If the FDA decides to regulate our tests, it may require additional pre-market clinical testing prior to submitting a regulatory notification or application for commercial sales. If we are required to conduct pre-market clinical trials, whether using prospectively acquired samples or archival samples, delays in the commencement or completion of clinical testing could significantly increase our test development costs and delay commercialization of any future tests, and interrupt sales of our current tests. Many of the factors that may cause or lead to a delay in the commencement or completion of clinical trials may also ultimately lead to delay or denial of regulatory clearance or approval. The commencement of clinical trials may be delayed due to insufficient patient enrollment, which is a function of many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites and the eligibility criteria for the clinical trial.

We may find it necessary to engage contract research organizations to perform data collection and analysis and other aspects of our clinical trials, which might increase the cost and complexity of our trials. We may also depend on clinical investigators, medical institutions and contract research organizations to perform the trials. If these parties do not successfully carry out their contractual duties or obligations or meet expected deadlines, or if the quality, completeness or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or for other reasons, our clinical trials may have to be extended, delayed or terminated. Many of these factors would be beyond our control. We may not be able to enter into replacement arrangements without undue delays or considerable expenditures. If there are delays in testing or approvals as a result of the failure to perform by third parties, our research and development costs would increase, and we may not be able to obtain regulatory clearance or approval for our tests. In addition, we may not be able to establish or maintain relationships with these parties on favorable terms, if at all. Each of these outcomes would harm our ability to market our tests, or to achieve sustained profitability.

Even if the clinical trials are timely completed, there is no assurance that the results of those trials will be sufficient to support regulatory clearance or approval for the intended indications. Failure of the clinical data to support an intended use of given LDT would likely have an adverse impact on the Company.

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Our business could be harmed from the loss or suspension of a license or imposition of a fine or penalties under, or future changes in, or changing interpretations of, CLIA or state laboratory licensing laws to which we are subject.

The clinical laboratory testing industry is subject to extensive federal and state regulation, and many of these statutes and regulations have not been interpreted by the courts. The regulations implementing CLIA set out federal regulatory standards that apply to virtually all clinical laboratories (regardless of the location, size or type of laboratory), including those operated by physicians in their offices, by requiring that they be certified by the federal government or by a federally approved accreditation agency. CLIA does not preempt state law, which in some cases may be more stringent than federal law and require additional personnel qualifications, quality control, record maintenance and proficiency testing. The sanction for failure to comply with CLIA and state requirements may be suspension, revocation or limitation of a laboratory s CLIA certificate, which is necessary to conduct business, as well as significant fines and/or criminal penalties. Several states have similar laws and we may be subject to similar penalties. If the certification of one laboratory owned by the Company is suspended or revoked that may preclude the Company from owning or operating any other laboratory in the Country for two years.

We cannot assure you that applicable statutes and regulations and more specifically, the Food, Drug, and Cosmetic Act, will not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect our business. Potential sanctions for violation of these statutes and regulations include significant fines and the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on our business. In addition, compliance with future legislation could impose additional requirements on us, which may be costly.

Failure to establish, and perform to, appropriate quality standards to assure that the highest level of quality is observed in the performance of our testing services and in the design, manufacture and marketing of our products could adversely affect the results of our operations and adversely impact our reputation.

The provision of clinical testing services, and the design, manufacture and marketing of diagnostic products involve certain inherent risks. The services that we provide and the products that we design, manufacture and market are intended to provide information for healthcare providers in providing patient care. Therefore, users of our services and products may have a greater sensitivity to errors than the users of services or products that are intended for other purposes.

Similarly, negligence in performing our services can lead to injury or other adverse events. We may be sued under common law, physician liability or other liability law for acts or omissions by our laboratory personnel. We are subject to the attendant risk of substantial damages awards and risk to our reputation.

Failure to comply with complex federal and state laws and regulations related to submission of claims for clinical laboratory services could result in significant monetary damages and penalties and exclusion from the Medicare and Medicaid programs.

We are subject to extensive federal and state laws and regulations relating to the submission of claims for payment for clinical laboratory services, including those that relate to coverage of our services under Medicare, Medicaid and other governmental health care programs, the amounts that may be billed for our services and to whom claims for services may be submitted. In addition, we are subject to various laws regulating our interactions with other healthcare providers and with patients, such as the Anti-Kickback Statute, the Anti-Inducement Statute,

and the Ethics in Patient Referrals Act of 1989, commonly referred to as the Stark law. These laws are complicated.

Our failure to comply with applicable laws and regulations could result in our inability to receive payment for our services or result in attempts by third-party payers, such as Medicare and Medicaid, to recover payments from us that have already been made. Submission of claims in violation of certain statutory or regulatory requirements can result in penalties, including substantial civil penalties for each item or service billed to Medicare in violation of the legal requirement, and exclusion from participation in Medicare, Medicaid and other federal health care programs. Government authorities or whistleblowers may also assert that violations of laws and regulations related to submission or causing the submission of claims violate the federal False Claims Act, or FCA, or other laws related to fraud and abuse, including submission of claims for services that were not medically necessary. Violations of the FCA could result in significant economic liability. The FCA provides that all damages are trebled, and each false claim submitted is subject to a penalty of up to $21,563 for violations occurring after November 2, 2015 and $11,000 for violations occurring before November 2, 2015. For example, we could be subject to FCA liability if it were determined that the services we provided were not medically necessary and not reimbursable or if it were determined that we improperly paid physicians who referred patients to our laboratory. It is also possible that the government could attempt to hold us liable under fraud and abuse laws for improper claims submitted by an entity for services that we performed if we were found to have knowingly participated in the arrangement that resulted in submission of the improper claims.

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Failure to comply with HIPAA, including regarding the use of new standard transactions, may negatively impact our profitability and cash flows.

Pursuant to the Health Insurance Portability and Accountability Act of 1996, as amended, or HIPAA, we must comply with comprehensive privacy and security standards with respect to the use and disclosure of protected health information, as well as standards for electronic transactions, including specified transaction and code set rules. Under the 2009 HITECH amendments to HIPAA, the law was expanded, including requirements to provide notification of certain identified data breaches, direct patient access to laboratory records, the extension of certain HIPAA privacy and security standards directly to business associates, and heightened penalties for noncompliance, and enforcement efforts.

In addition, HIPAA not only seeks to ensure patient privacy, but also requires providers that bill electronically to do so using standard code sets. These HIPAA transaction standards are complex, and subject to differences in interpretation by payers. For instance, some payers may interpret the standards to require us to provide certain types of information, including demographic information not usually provided to us by physicians. As a result of inconsistent application of transaction standards by payers or our inability to obtain certain billing information not usually provided to us by physicians, we could face increased costs and complexity, a temporary disruption in receipts and ongoing reductions in the timeliness of reimbursement. In addition, new requirements for additional standard transactions, such as claims attachments, Version 5010 of the HIPAA Transaction Standards and the ICD-10-CM Code Set, could prove technically difficult, time-consuming or expensive to implement.

Complying with numerous regulations pertaining to our business is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.

The clinical laboratory testing industry is highly regulated and there can be no assurance that the regulatory environment in which we operate will not change significantly and adversely in the future. Areas of the regulatory environment that may affect our ability to conduct business include, without limitation:

- federal and state laws applicable to billing and claims payment;
- federal and state laboratory anti-mark-up laws;
- federal and state anti-kickback laws;
- federal and state false claims laws;
- federal self-referral and financial inducement prohibition laws, commonly known as the Stark Law, and the state equivalents;
- federal and state laws governing laboratory licensing and testing, including CLIA;
- federal and state laws governing the LDTs;

- HIPAA, along with the revisions to HIPPA as a result of the HITECH Act, and analogous state laws;
- federal, state and foreign regulation of privacy, security, electronic transactions and identity theft;
- federal, state and local laws governing the handling, transportation and disposal of medical and hazardous waste;
- Occupational Safety and Health Administration rules and regulations;
- changes to laws, regulations and rules as a result of the Health Care Reform Law; and
- changes to other federal, state and local laws, regulations and rules, including tax laws.

We have adopted policies and procedures designed to comply with these laws. In the ordinary course of business, there is an ongoing awareness of the importance of compliance with these laws. The growth of our business and sales organization may increase the potential for violating these laws or our internal policies and procedures, despite our ongoing vigilance in maintaining and updating our compliance procedures. The risk of being found in violation of these or other laws and regulations is further increased by the fact that many of them are extremely complex and in many instances, there are no significant regulatory or judicial interpretations of these laws and regulations. Any action brought against us for violation of these or other laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert management s attention. Any determination that we have violated these laws or regulations, or a public announcement that we are being investigated for possible violations of these laws or regulations, could harm our reputation, operating results and financial condition. If our operations are found to be in violation of any of these laws and regulations, we may be subject to any applicable penalty associated with the violation, including civil and criminal penalties, damages and fines, we could be required to refund payments received by us, and we could be required to curtail or cease our operations. In addition, a significant change in any of these laws or regulations may require us to change our business model in order to maintain compliance with these laws or regulations, which could harm our operating results and financial condition.

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A failure to comply with any of federal or state laws applicable to our business, particularly laws related to the elimination of healthcare fraud, may adversely impact our business.

Federal officials responsible for administering and enforcing the healthcare laws and regulations have made a priority of eliminating healthcare fraud. For example, the Patient Protection and Affordable Care Act, as amended by the Health Care Education and Reconciliation Act of 2010, jointly the Affordable Care Act, includes significant new fraud and abuse measures, including required disclosures of financial arrangements between drug and device manufacturers, on the one hand, and physicians and teaching hospitals, on the other hand. Federal funding available for combating health care fraud and abuse generally has increased. While we seek to conduct our business in compliance with all applicable laws and regulations, many of the laws and regulations applicable to our business, particularly those relating to billing and reimbursement of tests and those relating to relationships with physicians, hospitals and patients, contain language that has not been interpreted by courts. We must rely on our interpretation of these laws and regulations based on the advice of our counsel and regulatory or law enforcement authorities may not agree with our interpretation of these laws and regulations and may seek to enforce legal remedies or penalties against us for violations. From time to time we may need to change our operations, particularly pricing or billing practices, in response to changing interpretations of these laws and regulations or regulatory or judicial determinations with respect to these laws and regulations. These occurrences, regardless of their outcome, could damage our reputation and harm important business relationships that we have with healthcare providers, payers and others. Furthermore, if a regulatory or judicial authority finds that we have not complied with applicable laws and regulations, we could be required to refund amounts that were billed and collected in violation of such laws and regulations. In addition, we may voluntarily refund amounts that were alleged to have been billed and collected in violation of applicable laws and regulations. In either case, we could suffer civil and criminal damages, fines and penalties, exclusion from participation in governmental healthcare programs and the loss of licenses, certificates and authorizations necessary to operate our business, as well as incur liabilities from third-party claims, all of which could harm our operating results and financial condition. Moreover, regardless of the outcome, if we or physicians or other third parties with whom we do business are investigated by a regulatory or law enforcement authority we could incur substantial costs, including legal fees, and our management may be required to divert a substantial amount of time to an investigation.

To enhance compliance with applicable health care laws, and mitigate potential liability in the event of noncompliance, regulatory authorities, such as the United States Department of Health and Human Services Office of Inspector General, or OIG, have recommended the adoption and implementation of a comprehensive health care compliance program that generally contains the elements of an effective compliance and ethics program described in Section 8B2.1 of the United States Sentencing Commission Guidelines Manual, and for many years the OIG has made available a model compliance program targeted to the clinical laboratory industry. In addition, certain states, such as New York, require that health care providers, such as clinical laboratories, that engage in substantial business under the state Medicaid program have a compliance program that generally adheres to the standards set forth in the Model Compliance Program. Also, under the Affordable Care Act, the U.S. Department of Health and Human Services, or HHS, will require suppliers, such as the Company, to adopt, as a condition of Medicare participation, compliance programs that meet a core set of requirements.

Failure to maintain the security of patient-related information or compliance with security requirements could damage our reputation with customers, cause us to incur substantial additional costs and become subject to litigation.

Pursuant to HIPAA, and certain similar state laws, we must comply with comprehensive privacy and security standards with respect to the use and disclosure of protected health information. Under the HITECH amendments to HIPAA, HIPAA was expanded to require certain data breach notification, to extend certain HIPAA privacy and security standards directly to business associates, to heighten penalties for noncompliance, and enhance enforcement efforts.

We receive certain personal and financial information about our clients and their patients. In addition, we rely heavily on communications and information systems to conduct our business. Our operations depend heavily upon the secure transmission of confidential information over public networks. We are transitioning our products commercial program to an ecommerce based solution, which places our assets, customer data and other personally identifiable data at higher risks. We are making investments to ensure that our employees are aware of cyber security risks facing the Company and how to prevent data breaches. A compromise in our security systems that results in client or patient personal information being obtained by unauthorized persons or our failure to comply with security requirements for financial transactions could adversely affect our reputation with our clients and result in litigation against us or the imposition of penalties, all of which may adversely affect our operations, financial condition and liquidity. Although we are not aware of the occurrence of any data beaches, we continue to update our cyber security tools and processes in an attempt to keep pace with evolving cyber security risks.

Changes in regulation and policies, including increasing downward pressure on health care reimbursement, may adversely affect reimbursement for diagnostic services and could have a material adverse impact on our business.

Reimbursement levels for health care services are subject to continuous and often unexpected changes, and we face a variety of efforts by government payers to reduce utilization and reimbursement for diagnostic testing services. Changes in governmental reimbursement may result from statutory and regulatory changes, retroactive rate adjustments, administrative rulings, competitive bidding initiatives, or other policy changes.

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The U.S. Congress has considered, at least yearly in conjunction with budgetary legislation, changes to one or both of the Medicare fee schedules under which we receive reimbursement, which include the clinical laboratory fee schedule for our clinical laboratory services. For example, Congress has periodically considered imposing a 20 percent coinsurance on laboratory services. If enacted, this would require us to attempt to collect this amount from patients, although in many cases the costs of collection would exceed the amount actually received.

The CMS pays laboratories on the basis of a of a fee schedule that is reviewed and re-calculated on an annual basis. CMS may change the fee schedule upward or downward on billing codes that we submit for reimbursement on a regular basis. Our revenue and business may be adversely affected if the reimbursement rates associated with such codes are reduced. Even when reimbursement rates are not reduced, policy changes add to our costs by increasing the complexity and volume of administrative requirements. Medicaid reimbursement, which varies by state, is also subject to administrative and billing requirements and budget pressures. Recently, state budget pressures have caused states to consider several policy changes that may impact our financial condition and results of operations, such as delaying payments, reducing reimbursement, restricting coverage eligibility and service coverage, and imposing taxes on our services.

The transition to a direct self-pay program in April 2017 may reduce the reimbursement risks by placing the responsibility for payment purely with the patient, although overall market adoption and revenue generation may be adversely affected.

Healthcare policy changes, including recently enacted legislation reforming the U.S. healthcare system, may have a material adverse effect on our financial condition and results of operations.

Fees for most laboratory services reimbursed by Medicare are established in the Clinical Laboratory Fee Schedule (CLFS), and fees for other testing reimbursed by Medicare, primarily related to pathology, are covered by the Physician Fee Schedule (PFS). Over the past several years, the Company has experienced governmental pay reductions as a direct result of the Affordable Care Act (ACA), the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) and the Achieving a Better Life Experience Act of 2014 (ABLE Act). In addition, the Protecting Access to Medicare Act (PAMA), which became law on April 1, 2014, is expected to result in a future net reduction in reimbursement revenue under the CLFS. These laws include provisions designed to control healthcare expenses reimbursed by government programs through a combination of reductions to fee schedules, incentives to providers to participate in alternative payment models such as risk-sharing and new methods to establish and adjust fees.

The Affordable Care Act makes changes that are expected to significantly affect clinical laboratories, among others. Beginning in 2013, each medical device manufacturer must pay a sales tax (medical device excise tax MDET) in an amount equal to 2.3% of the price for which such manufacturer sells its medical devices that are listed with the FDA. The Consolidated Appropriations Act, 2016 (Dec. 18, 2015) imposed a two-year moratorium on this medical device tax so it would not apply to the sale of a taxable medical device by the manufacturer, producer, or importer of the device during the period beginning on Jan. 1, 2016, and ending on Dec. 31, 2017.Repeal of the MDET was included in the House passed American Health Care Act of 2017 and the Senate s Better Care Reconciliation Act released on July 13, 2017; however, the Senate has thus far failed to pass its bill to repeal and replace the Affordable Care Act. The moratorium has subsequently on January 22, 2018 been extended for a further period of 2 years. Unless additional action is taken, the MDET will be reinstated on January 1, 2020. The medical device industry has garnered significant support for the permanent repeal of the MDET. It is likely that advocates will continue to push Congress to consider legislation to repeal the MDET before it is reinstated.

Although the FDA has contended that LDTs are medical devices, none of our products is currently listed with the FDA. We cannot assure you that the tax, once the moratorium sunsets, will not be extended to services such as ours in the future. The Affordable Care Act also mandates a

reduction in payments for clinical laboratory services paid under the Medicare Clinical Laboratory Fee Schedule, or CLFS, of 1.75% through 2015 and a productivity adjustment to the CLFS. Moreover, under Protecting Access to Medicare Act, CMS will be required to set and make adjustments to the CLFS using market-based information that reflects the scope of prices paid across the laboratory industry. On October 1, 2015, CMS issued a proposed rule to implement PAMA that would require applicable laboratories, including the Company, to begin reporting their test-specific private payer payment amounts to CMS during the first quarter of 2016. CMS intends to use that private market data to calculate weighted median prices for each test (based on applicable CPT codes) that would represent the new CLFS rates beginning in 2017, subject to certain phase-in limits. For 2017-2019, a test price cannot be reduced by more than 10.0% per year; for 2020-2022, a test price cannot be reduced by more than 15.0% per year. Reporting and pricing will occur every three years, or annually with respect to certain types of tests, to update the CLFS thereafter.

Other significant measures contained in the Affordable Care Act includes, for example, coordination and promotion of research on comparative clinical effectiveness of different technologies and procedures, initiatives to revise Medicare payment methodologies, such as bundling of payments across the continuum of care by providers and physicians, and initiatives to promote quality indicators in payment methodologies. The Affordable Care Act also includes significant new fraud and abuse measures, including required

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disclosures by drug and device manufacturers and distributors of financial arrangements with physicians and teaching hospitals. In addition, the Health Care Reform Law establishes an Independent Payment Advisory Board, or IPAB, to reduce the per capita rate of growth in Medicare spending. The IPAB has broad discretion to propose policies to reduce expenditures, which may have a negative impact on payment rates for services. The IPAB proposals may impact payments for clinical laboratory services beginning in 2016. We are monitoring the impact of the Health Care Reform Law in order to enable us to determine the trends and changes that may be necessitated by the legislation that may potentially impact on our business over time.

In addition to the Affordable Care Act, various healthcare reform proposals have also emerged from federal and state governments. For example, in February 2012, Congress passed the Middle Class Tax Relief and Job Creation Act of 2012 which in part reduced the potential future cost-based increases to the Medicare Clinical Laboratory Fee Schedule by 2%. Overall the expected total fee cut to the CLFS for 2013 was 2.95% not including a further reduction of 2% from implementation of the automatic expense reductions (sequester) under the Budget Control Act of 2011 which went into effect for dates of service on or after April 1, 2013. Reductions made by the Congressional sequester are applied to total claims payments made. While these reductions did not result in a rebasing of the negotiated or established Medicare or Medicaid reimbursement rates, rebasing could occur as a result of future legislation. In 2015, the total fee cut to the CLFS was 0.25%.

We may also be subject to the U.S. federal Physician Payments Sunshine Act and various state laws on reporting remunerative relationships with healthcare customers. These laws impact the kinds of financial arrangements we may have with hospitals, surgeons or other potential purchasers of our products. They particularly impact how we structure our sales offerings, including discount practices, customer support, education and training programs, physician consulting, research grants and other arrangements. These laws are administered by, among others, the U.S. Department of Justice, the Office of Inspector General of the Department of Health and Human Services and state attorneys general. Many of these agencies have increased their enforcement activities with respect to medical device manufacturers in recent years. If our operations are found to be in violation of these laws, we may be subject to penalties, including potentially significant criminal, civil and/or administrative penalties, damages, fines, disgorgement, exclusion from participation in government healthcare programs, contractual damages, reputational harm, administrative burdens, diminished profits and future earnings, and the curtailment or restructuring of our operations.

On June 23, 2016, the CMS published a final rule implementing PAMA, which required establishment of a new Medicare reimbursement system for clinical lab tests paid under the CLFS, based on private payer rates, as reported to CMS. Although the new payment system was supposed to go into effect for tests furnished after January 1, 2017, the CMS rulemaking process was delayed, and the new rates will not be effective until January 1, 2018 pursuant to the final rule. Under the new system the Company must collect data on private payer rates and report the data to CMS every three years for most types of tests. The Company does not expect that the new reporting requirements will have a material impact on its business or results of operations. CMS will use the data reported by all applicable labs to calculate a weighted median of private payer rates for each test performed, and that weighted median will be the new Medicare rate. Rate reductions for existing tests under the new system will be phased in over six years. The public comment period on the preliminary private payor rate based CLFS payment amounts will close on October 23, 2017 after which CMS will make available final CY 2018 CLFS rates on the CMS website for a January 1, 2018 implementation. The Company is still assessing the full impact of the final rule, but has been preparing for it for some time.

We cannot be certain that these or future changes will not affect payment rates in the future. We also cannot predict whether future healthcare initiatives will be implemented at the federal or state level, or the effect any future legislation or regulation will have on us. The taxes imposed by the new federal legislation, cost reduction measures and the expansion in government s role in the U.S. healthcare industry may result in decreased profits to us, lower reimbursements by payers for our products or reduced medical procedure volumes, all of which may adversely affect our business, financial condition and results of operations.

Healthcare plans have taken steps to control the utilization and reimbursement of healthcare services, including clinical test services.

We also face efforts by non-governmental third-party payers, including healthcare plans, to reduce utilization and reimbursement for clinical testing services.

The healthcare industry has experienced a trend of consolidation among healthcare insurance plans, resulting in fewer but larger insurance plans with significant bargaining power to negotiate fee arrangements with healthcare providers, including clinical testing providers. These healthcare plans, and independent physician associations, may demand that clinical testing providers accept discounted fee structures or assume all or a portion of the financial risk associated with providing testing services to their members through capped payment arrangements. In addition, some healthcare plans have been willing to limit the PPO or POS laboratory network to only a single

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national laboratory to obtain improved fee-for-service pricing. There are also an increasing number of patients enrolling in consumer driven products and high deductible plans that involve greater patient cost-sharing.

The increased consolidation among healthcare plans also has increased the potential adverse impact of ceasing to be a contracted provider with any such insurer. Sales volumes and prices of our products depend in large part on the availability of coverage and reimbursement from third-party payors. Third-party payors include governmental programs such as U.S. Medicare and Medicaid, private insurance plans, and workers compensation plans. These third-party payors may deny coverage or reimbursement for a product or procedure if they determine that the product or procedure was not medically appropriate or necessary. Even though a new product may have been cleared for commercial distribution by relevant regulatory authorities, we may find limited demand for the product until reimbursement approval is assured from multiple governmental and private third-party payors. In the United States, a uniform policy of coverage does not exist across all third-party payors relative to payment of claims for all products. Therefore, coverage and payment can be quite different from payor to payor, and from one region of the country to another. This is also true for foreign countries in that coverage and payment systems vary from country to country.

Third-party payors are developing increasingly sophisticated methods of controlling healthcare costs through more cost-effective methods of delivering healthcare. All of these types of programs can potentially impact market access for, and pricing structures of our products, which in turn, can impact our future sales. There can be no assurance that third-party reimbursement will be available or adequate, or that current and future legislation, regulation or reimbursement policies of third-party payors will not adversely affect the demand for our products or our ability to sell our products on a profitable basis. The unavailability or inadequacy of third-party payor reimbursement could have a material adverse effect on our business, operating results, and financial condition.

Outside the United States, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific product lines and procedures. There can be no assurances that procedures using our products will be considered medically reasonable and necessary for a specific indication, that our products will be considered cost-effective by third-party payors, that an adequate level of reimbursement will be available, or that the third-party payors reimbursement policies will not adversely affect our ability to sell our products profitably.

We expect continuing efforts to reduce reimbursements, to impose more stringent cost controls and to reduce utilization of clinical test services. These efforts, including future changes in third-party payer rules, practices and policies, or ceasing to be a contracted provider to a healthcare plan, may have a material adverse effect on our business.

Government regulation of genetic research or testing may adversely affect the demand for our services and impair our business and operations.

In addition to the regulatory framework governing healthcare, genetic research and testing has been the focus of public attention and regulatory scrutiny. From time to time, federal, state and/or local governments adopt regulations relating to the conduct of genetic research and genetic testing. In the future, these regulations could limit or restrict genetic research activities as well as genetic testing for research or clinical purposes. In addition, if such regulations are adopted, these regulations may be inconsistent with, or in conflict with, regulations adopted by other government bodies. Regulations relating to genetic research activities could adversely affect our ability to conduct our research and development activities. Regulations restricting genetic testing could adversely affect our ability to market and sell our products and services. Accordingly, any regulations of this nature could increase the costs of our operations or restrict our ability to conduct our testing business and might adversely affect our operations and financial condition.

Our operations may be adversely affected by the effects of extreme weather conditions or other interruptions in the timely transportation of specimens.

We transport specimens from our North Carolina offices in the U.S. to our laboratory located in Melbourne, Australia. Our operations may be adversely impacted by extreme weather conditions or other interruptions in the timely transportation of such specimens or otherwise to provide our services, from time to time. The occurrence of any such event and/or a disruption to our operations as a result may harm our reputation and adversely impact our results of operations.

Failure in our information technology systems could significantly increase testing turn-around times or impact on the billing processes or otherwise disrupt our operations.

Our laboratory operations depend, in part, on the continued performance of our information technology systems. Our information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptions. Sustained system failures or interruption of our systems in our laboratory operations could disrupt our ability to process laboratory requisitions, perform testing, and provide test results in a timely manner and/or billing process. Breaches with respect to protected health information

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could result in violations of HIPAA and analogous state laws, and risk the imposition of significant fines and penalties. Failure of our information technology systems could adversely affect our reputation, business, profitability and financial condition.

Breaches of network or information technology, natural disasters or terrorist attacks could have an adverse impact on our business

Cyber-attacks or other breaches of information technology security, natural disasters, or acts of terrorism or war may result in hardware failure or disrupt our product testing or research and development activities. There has been a substantial increase in frequency of successful and unsuccessful cyber-attacks on companies in recent years. Such an event may result in our inability, or the inability of our collaborative partners, to operate the facilities to conduct and complete the necessary activities. which even if the event is for a limited period of time, may result in significant expenses and/ or significant damage or delay to our commercial or research activities. While we maintain insurance cover for some of these events, the potential liabilities associated with these events could exceeded the cover we maintain. We are likely to be subject to attempts to breach the security of our networks and information technology infrastructure through cyber-attack, malware, computer viruses or other means of unauthorized access. To date however, we have not been subject to any cyber incidents which individually or in aggregate have resulted in a material impact to our operations or financial condition.

Failure to demonstrate the clinical utility of our products could have a material adverse effect on our financial condition and results of operations.

In order to assure adequate insurance coverage and favorable insurance reimbursement of our products, we have been required to demonstrate the clinical utility of our tests. Clinical utility which is the usefulness of a test for clinical practice (as contrasted with diagnostic accuracy, which is how well the test can determine the presence, absence, or risk of a specific disease) may well be the most significant limitation for the widespread acceptance of molecular diagnostic tools such as BREVAGen*plus*. These studies have required us to invest considerable financial and management resources without any assurance of favorable results. Successful studies are difficult to plan, execute and validate, because of the time involved and variables that are difficult to control and which can impact outcomes. If we are unable to demonstrate clinical utility, or if our data is deemed insufficient to validate utility, which are required for Medicare coverage, then we may face negative coverage decisions for our products. The resulting negative coverage decisions could have a material adverse effect on our financial conditions and results of operations.

With the change in our pricing and billing model effective April 1, 2017, to a direct patient self-pay model, this requirement has currently become redundant. We recognize, however that scientific papers are an essential marketing tool and that scientific and clinical data are key drivers in commercial adoption. We intend to explore opportunities to engage in further research collaborations to support clinical utility.

Ethical and other concerns surrounding the use of genetic information may reduce the demand for our services.

Public opinion regarding ethical issues related to the confidentiality and appropriate use of genetic testing may influence government authorities to call for limits on, or regulation of the use of, genetic testing. In addition, such authorities could prohibit testing for genetic predisposition to certain conditions, particularly for those that have no known cure. Furthermore, adverse publicity or public opinion relating to genetic research and testing, even in the absence of any governmental regulation, could reduce the potential markets for our services, which could materially and adversely affect our financial position.

We do not however undertake any activities in the contentious areas of cloning, stem cell research or other gene-altering areas. As such, many of the ethical issues that may be relevant to other participants in the genetics industry are not necessarily applicable to us.

Risks associated with Out-licensing of our intellectual property

The patenting of genes and issues surrounding access to genetic knowledge are the subjects of extensive and ongoing public debate in many countries. By way of example, the Australian Law Reform Commission has previously conducted two inquiries into the social uses of genetic information. The patents we hold over uses of non-coding DNA have broad scope and have also been the subject of debate and some criticism in the media. Individuals or organizations, in any one of the countries in which these patents have issued, could take legal action to seek their amendment, revocation or invalidation, something which has happened previously, on several occasions in various jurisdictions, though we have prevailed in all such cases.

Furthermore, any time that we initiate legal action against parties that infringe our patents we face a risk that the infringer will defend itself through a counter-claim of patent invalidity or other such claims. Subsequent legal action could potentially overturn, invalidate or limit the scope of our patents.

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We rely heavily upon patents and proprietary technology that may fail to protect our business.

We rely upon our portfolio of patent rights, patent applications and exclusive licenses to patents and patent applications relating to genetic technologies. We expect to aggressively patent and protect our proprietary technologies. However, we cannot be certain that any additional patents will be issued to us as a result of our domestic or foreign patent applications or that any of our patents will withstand challenges by others. Patents issued to, or licensed by us may be infringed or third parties may independently develop the same or similar technologies. Similarly, our patents may not provide us with meaningful protection from competitors, including those who may pursue patents which may prevent, limit or interfere with our products or which may require licensing and the payment of significant fees or royalties by us to such third parties in order to enable us to conduct our business. We may sue or be sued by third parties regarding our patents and other intellectual property rights. These suits are often costly and would divert valuable funds, time and technical resources from our operations and cause a distraction to management.

We may face difficulties in certain jurisdictions in protecting our intellectual property rights, which may diminish the value of our intellectual property rights in those jurisdictions.

The laes of some jurisdictions do not protect intellectual property rights to the same extent as the laes in the United States and the European Union, and many companies have encountered significant difficulties in protecting and defending such rights in such jurisdictions. If we or our collaboration partners encounter difficulties in protecting, or are otherwise precluded from effectively protecting, the intellectual property rights for our business in such jurisdictions, the value of those rights may be diminished and we may face additional completion from others in those jurisdictions.

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—

0.9

—

—

—

Diesel swaps
1.2

(1.2
)

—

5.1

(5.1
)

—

Specialty products segment: (1)

Crude oil swaps
—

—

—

1.6

(1.6
)

—

Total derivative instruments not designated as hedges
12.6

(12.2
)

0.4

6.9

(6.9
)

—

Total derivative instruments
$
54.3

$
(53.3
)

$
1.0

$
52.0

$
(48.9
)

$
3.1

From time-to time, the Company has entered into crude oil swaps to economically hedge a portion of its exposures
(1) to price risk related to these commodities in its specialty products segment. The Company has not designated these derivative instruments as cash flow hedges.

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	March 31, 2013			December 31, 2012		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheets
Derivative instruments designated as hedges:						
Fuel products segment:						
Crude oil swaps	$(17.0)	$30.2	$13.2	$(41.1)	$14.4	$(26.7)
Gasoline swaps	(5.3)	1.5	(3.8)	(2.8)	4.9	2.1
Diesel swaps	(39.9)	6.0	(33.9)	(25.2)	14.9	(10.3)
Jet fuel swaps	(8.6)	3.4	(5.2)	(10.1)	7.8	(2.3)
Total derivative instruments designated as hedges	(70.8)	41.1	(29.7)	(79.2)	42.0	(37.2)
Derivative instruments not designated as hedges:						
Fuel products segment:						
Crude oil swaps	(2.7)	2.1	(0.6)	(10.8)	0.1	(10.7)
Crude oil basis swaps	(0.5)	8.9	8.4	(3.5)	0.1	(3.4)
Gasoline swaps	(3.5)	—	(3.5)	(2.2)	—	(2.2)
Diesel swaps	(1.6)	1.2	(0.4)	(1.2)	5.1	3.9
Specialty products segment: (1)						
Crude oil swaps	—	—	—	—	1.6	1.6
Total derivative instruments not designated as hedges	(8.3)	12.2	3.9	(17.7)	6.9	(10.8)
Total derivative instruments	$(79.1)	$53.3	$(25.8)	$(96.9)	$48.9	$(48.0)

(1) From time-to-time, the Company has entered into crude oil swaps to economically hedge a portion of its exposures to price risk related to these commodities in its specialty products segment. The Company has not designated these derivative instruments as cash flow hedges.

The Company accounts for certain derivatives hedging purchases of crude oil and sales of gasoline, diesel and jet fuel as cash flow hedges. The derivatives hedging sales and purchases are recorded to sales and cost of sales, respectively, in the unaudited condensed consolidated statements of operations upon recording the related hedged transaction in sales or cost of sales. The derivatives designated as hedging payments of interest are recorded in interest expense in the unaudited condensed consolidated statements of operations upon payment of interest. The Company assesses, both at inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Periodically, the Company may enter into crude oil and fuel product basis swaps to more effectively hedge its crude oil purchases and fuel products sales. These derivatives can be combined with a swap contract in order to create a more effective hedge. The Company has entered into crude oil basis swaps for 2013 that do not qualify as cash flow hedges for accounting purposes as they

were not entered into simultaneously with a corresponding NYMEX WTI derivative contract.

To the extent a derivative instrument designated as a hedge is determined to be effective as a cash flow hedge of an exposure to changes in the fair value of a future transaction, the change in fair value of the derivative is deferred in accumulated other comprehensive income (loss), a component of partners' capital in the condensed consolidated balance sheets, until the underlying transaction hedged is recognized in the unaudited condensed consolidated statements of operations. Hedge accounting is discontinued when it is determined that a derivative no longer qualifies as an effective hedge or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative instrument no longer qualifies as an effective cash flow hedge, the derivative instrument is subject to the mark-to-market method of accounting prospectively. Changes in the mark-to-market fair value of the derivative instrument are recorded to unrealized gain on derivative instruments in the unaudited condensed consolidated statements of operations. Unrealized gains and losses related to discontinued cash flow hedges that were previously accumulated in accumulated other comprehensive income (loss) will remain in accumulated other comprehensive income (loss) until the underlying transaction is

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reflected in earnings, unless it is probable that the hedged forecasted transaction will not occur, at which time, associated deferred amounts in accumulated other comprehensive income (loss) are immediately recognized in unrealized gain on derivative instruments.

Effective January 1, 2012, hedge accounting was discontinued prospectively for certain crude oil derivative instruments when it was determined that they were no longer highly effective in offsetting changes in the cash flows associated with crude oil purchases at the Company's Superior refinery due to the volatility in crude oil pricing differentials between heavy crude oil and NYMEX WTI. Effective April 1, 2012, hedge accounting was discontinued prospectively for certain gasoline and diesel derivative instruments associated with gasoline and diesel sales at the Company's Superior refinery. The discontinuance of hedge accounting on these derivative instruments has caused the Company to recognize derivative losses of $5.4 million and derivative gains of $27.2 million in realized gain (loss) on derivative instruments, respectively, in the unaudited condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012. The discontinuance of hedge accounting on these derivative instruments caused the Company to recognize derivative gains of $3.7 million and $29.3 million, respectively, in unrealized gain on derivative instruments in the unaudited condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012.

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 on derivative instruments in the unaudited condensed consolidated statements of operations. Upon the settlement of a derivative not designated as a cash flow hedge, the gain or loss at settlement is recorded to realized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. Ineffectiveness is inherent in the hedging of crude oil and fuel products. Due to the volatility in the markets for crude oil and fuel products, the Company is unable to predict the amount of ineffectiveness each period, determined on a derivative by derivative basis or in the aggregate for a specific commodity, and has the potential for the future loss of hedge accounting. Ineffectiveness has resulted, and the loss of hedge accounting has resulted, in increased volatility in the Company's financial results. However, even though certain derivative instruments may not qualify for hedge accounting, the Company intends to continue to utilize such instruments as management believes such derivative instruments continue to provide the Company with the opportunity to more effectively stabilize cash flows.

The Company recorded the following amounts in its condensed consolidated balance sheets, unaudited condensed consolidated statements of operations, unaudited condensed consolidated statements of other comprehensive income (loss) and its unaudited condensed consolidated statements of partners' capital as of, and for the three months ended, March 31, 2013 and 2012 related to its derivative instruments that were designated as cash flow hedges (in millions):

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Net Income (Effective Portion)			Amount of Gain (Loss) Recognized in Net Income on Derivatives (Ineffective Portion)		
	Three Months Ended March 31,		Location of (Gain) Loss	Three Months Ended March 31,		Location of Gain (Loss)	Three Months Ended March 31,	
Type of Derivative	2013	2012		2013	2012		2013	2012
Fuel products segment:								
Crude oil swaps	$ 13.8	$ 32.8	Cost of sales	$(4.3)	$ 21.2	Unrealized/ Realized	$(24.2)	$ 61.6
Gasoline swaps	(9.7)	(58.3)	Sales	(3.8)	(16.3)	Unrealized/ Realized	(0.1)	(18.7)

Diesel swaps	(17.1)	(68.8)	Sales	—	(6.6)	Unrealized/ Realized	(1.6)	(2.6)
Jet fuel swaps	(4.3)	(78.7)	Sales	(3.8)	(43.6)	Unrealized/ Realized	0.5	(4.4)
Specialty products segment:								
Crude oil swaps	—	—	Cost of sales	0.3	2.5	Unrealized/ Realized	—	—
Total	$(17.3)	$(173.0)		$(11.6)	$(42.8)		$(25.4)	$35.9

The Company recorded the following gains (losses) in its unaudited condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012 related to its derivative instruments not designated as cash flow hedges (in millions):

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	Amount of Gain (Loss) Recognized in Realized Gain (Loss) on Derivative Instruments Three Months Ended March 31,		Amount of Gain (Loss) Recognized in Unrealized Gain on Derivative Instruments Three Months Ended March 31,	
Type of Derivative	2013	2012	2013	2012
Fuel products segment:				
Crude oil swaps	$(5.5)	$0.4	$39.7	$1.7
Crude oil basis swaps	0.2	—	11.6	—
Gasoline swaps	0.3	—	(1.3)	—
Diesel swaps	1.6	—	(5.4)	—
Jet fuel swaps	—	—	—	—
Specialty products segment:				
Crude oil swaps	1.7	—	(1.6)	—
Natural gas swaps	—	(1.4)	—	(1.5)
Interest rate swaps	—	(0.4)	—	0.7
Total	$(1.7)	$(1.4)	$43.0	$0.9

The cash flow impact of the Company's derivative activities is classified primarily as a change in derivative activity in the operating activities section in the unaudited condensed consolidated statements of cash flows.

The Company is exposed to credit risk in the event of nonperformance by its counterparties on these derivative transactions. The Company does not expect nonperformance on any derivative instruments, however, no assurances can be provided. The Company's credit exposure related to these derivative instruments is represented by the fair value of contracts reported as derivative assets. As of March 31, 2013, the Company had one counterparty, in which derivatives held were net assets, totaling $1.0 million. As of December 31, 2012, the Company had two counterparties, in which the derivatives held were net assets, totaling $3.1 million. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings. The Company primarily executes its derivative instruments with large financial institutions that have ratings of at least Baa2 and BBB by Moody's and S&P, respectively. In the event of default, the Company would potentially be subject to losses on derivative instruments with mark to market gains. The Company requires collateral from its counterparties when the fair value of the derivatives exceeds agreed upon thresholds in its master derivative contracts with these counterparties. No such collateral was held by the Company as of March 31, 2013 or December 31, 2012. The Company's contracts with these counterparties allow for netting of derivative instruments executed under each contract. Collateral received from counterparties is reported in other current liabilities, and collateral held by counterparties is reported in deposits, on the Company's condensed consolidated balance sheets and is not netted against derivative assets or liabilities. As of March 31, 2013 and December 31, 2012, the Company had provided its counterparties with no collateral except for a $25.0 million letter of credit provided to one counterparty to support crack spread hedging. For financial reporting purposes, the Company does not offset the collateral provided to a counterparty against the fair value of its obligation to that counterparty. Any outstanding collateral is released to the Company upon settlement of the related derivative instrument liability.

Certain of the Company's outstanding derivative instruments are subject to credit support agreements with the applicable counterparties which contain provisions setting certain credit thresholds above which the Company may be required to post agreed-upon collateral, such as cash or letters of credit, with the counterparty to the extent that the Company's mark-to-market net liability, if any, on all outstanding derivatives exceeds the credit threshold amount per such credit support agreement. In certain cases, the Company's credit threshold is dependent upon the Company's maintenance of certain corporate credit ratings with Moody's and S&P. In the event that the Company's corporate credit rating was lowered below its current level by either Moody's or S&P, such counterparties would have the right to reduce the applicable threshold to zero and demand full collateralization of the Company's net liability position on outstanding derivative instruments. As of March 31, 2013 and December 31, 2012, there was a net liability of $5.3

million and $7.5 million, respectively, associated with the Company's outstanding derivative instruments subject to such requirements. In addition, the majority of the credit support agreements covering the Company's outstanding derivative instruments also contain a general provision stating that if the Company experiences a material adverse change in its business, in the reasonable discretion of the counterparty, the Company's credit threshold could be lowered by such counterparty. The Company does not expect that it will experience a material adverse change in its business.

The effective portion of the cash flow hedges classified in accumulated other comprehensive loss was $19.7 million and $14.0 million, respectively, as of March 31, 2013 and December 31, 2012. Absent a change in the fair market value of the

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underlying transactions, the following other comprehensive income (loss) at March 31, 2013 will be reclassified to earnings by December 31, 2016 with balances being recognized as follows (in millions):

Year	Accumulated Other Comprehensive Income (Loss)
2013	$ 2.4
2014	(14.5)
2015	(7.7)
2016	0.1
Total	$ (19.7)

Based on fair values as of March 31, 2013, the Company expects to reclassify $1.2 million of net losses on derivative instruments from accumulated other comprehensive loss to earnings during the next twelve months due to actual crude oil purchases and gasoline, diesel and jet fuel sales. However, the amounts actually realized will be dependent on the fair values as of the dates of settlement.

Crude Oil Swap — Specialty Products Segment

At March 31, 2013, the Company did not have any crude oil derivatives related to future crude oil purchases in its specialty products segment.

At December 31, 2012, the Company had purchased a crude oil swap for 200,000 bbls in the second quarter of 2012 related to future crude oil purchases in its specialty products segment, which was not designated as a cash flow hedge. The Company subsequently sold a crude oil derivative swap in the third quarter of 2012, and the net impact of these two derivatives is a net gain of $1.6 million that has been recorded to unrealized loss in the consolidated statements of operations for the year ended December 31, 2012. This gain was realized in January 2013 upon settlement and was recorded to realized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations.

Crude Oil Contracts — Fuel Products Segment

Crude Oil Swap Contracts

At March 31, 2013, the Company had the following derivatives related to crude oil purchases in its fuel products segment, all of which are designated as cash flow hedges:

Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
Second Quarter 2013	2,275,000	25,000	$99.93
Third Quarter 2013	1,426,000	15,500	95.62
Fourth Quarter 2013	1,104,000	12,000	93.41
Calendar Year 2014	5,110,000	14,000	89.47
Calendar Year 2015	4,781,500	13,100	89.49
Calendar Year 2016	366,000	1,000	85.88
Totals	15,062,500		
Average price			$91.84

At March 31, 2013, the Company had the following derivatives related to crude oil purchases in its fuel products segment, none of which are designated as cash flow hedges:

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Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
Second Quarter 2013	637,000	7,000	$98.72
Third Quarter 2013	368,000	4,000	96.58
Fourth Quarter 2013	368,000	4,000	96.58
Totals	1,373,000		
Average price			$97.57

At December 31, 2012, the Company had the following derivatives related to crude oil purchases in its fuel products segment, all of which are designated as cash flow hedges:

Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
First Quarter 2013	1,665,000	18,500	$101.67
Second Quarter 2013	1,911,000	21,000	100.22
Third Quarter 2013	1,426,000	15,500	95.62
Fourth Quarter 2013	1,104,000	12,000	93.41
Calendar Year 2014	5,110,000	14,000	89.47
Calendar Year 2015	4,781,500	13,100	89.49
Totals	15,997,500		
Average price			$92.85

At December 31, 2012, the Company had the following derivatives related to crude oil purchases in its fuel products segment, none of which are designated as cash flow hedges:

Crude Oil Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Swap ($/Bbl)
First Quarter 2013	630,000	7,000	$101.34
Second Quarter 2013	455,000	5,000	98.56
Third Quarter 2013	368,000	4,000	96.58
Fourth Quarter 2013	368,000	4,000	96.58
Totals	1,821,000		
Average price			$98.72

Crude Oil Basis Swap Contracts

During 2012 and 2013 the Company entered into crude oil basis swaps to mitigate the risk of future changes in pricing differentials between Canadian heavy crude oil and NYMEX WTI crude oil and pricing differentials between LLS and NYMEX WTI. At March 31, 2013, the Company had the following derivatives related to crude oil basis swaps in its fuel products segment, none of which are designated as cash flow hedges:

Crude Oil Basis Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Differential to NYMEX WTI ($/Bbl)
Second Quarter 2013	724,000	7,956	$(26.89)
Third Quarter 2013	736,000	8,000	(15.73)
Fourth Quarter 2013	184,000	2,000	(23.75)
Totals	1,644,000		
Average price			$(21.54)

At December 31, 2012, the Company had the following derivatives related to crude oil basis swaps in its fuel products segment, none of which are designated as cash flow hedges:

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Crude Oil Basis Swap Contracts by Expiration Dates	Barrels Purchased	BPD	Average Differential to NYMEX WTI ($/Bbl)
First Quarter 2013	180,000	2,000	$(23.75)
Second Quarter 2013	364,000	4,000	(27.38)
Third Quarter 2013	184,000	2,000	(23.75)
Fourth Quarter 2013	184,000	2,000	(23.75)
Totals	912,000		
Average differential			$(25.20)

Fuel Products Swap Contracts

Diesel Swap Contracts

At March 31, 2013, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges:

Diesel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2013	546,000	6,000	$122.74
Third Quarter 2013	874,000	9,500	122.23
Fourth Quarter 2013	828,000	9,000	120.82
Calendar Year 2014	3,835,000	10,507	116.00
Calendar Year 2015	4,781,500	13,100	115.81
Calendar Year 2016	366,000	1,000	112.43
Totals	11,230,500		
Average price			$116.97

At March 31, 2013, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, none of which are designated as cash flow hedges:

Diesel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2013	364,000	4,000	$126.82
Third Quarter 2013	276,000	3,000	124.17
Fourth Quarter 2013	276,000	3,000	124.17
Totals	916,000		
Average price			$125.22

At December 31, 2012, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges:

Diesel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2013	546,000	6,000	$122.74
Third Quarter 2013	874,000	9,500	122.23
Fourth Quarter 2013	828,000	9,000	120.82
Calendar Year 2014	3,835,000	10,507	116.00
Calendar Year 2015	4,781,500	13,100	115.81
Totals	10,864,500		
Average price			$117.13

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At December 31, 2012, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, none of which are designated as cash flow hedges:

Diesel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2013	540,000	6,000	$130.57
Second Quarter 2013	364,000	4,000	126.82
Third Quarter 2013	276,000	3,000	124.17
Fourth Quarter 2013	276,000	3,000	124.17
Totals	1,456,000		
Average price			$127.20

Jet Fuel Swap Contracts

At March 31, 2013, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges:

Jet Fuel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2013	819,000	9,000	$129.20
Third Quarter 2013	368,000	4,000	125.13
Fourth Quarter 2013	276,000	3,000	122.36
Calendar Year 2014	1,275,000	3,493	116.64
Totals	2,738,000		
Average price			$122.11

At December 31, 2012, the Company had the following derivatives related to diesel and jet fuel sales in its fuel products segment, all of which are designated as cash flow hedges:

Jet Fuel Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2013	1,035,000	11,500	$127.39
Second Quarter 2013	819,000	9,000	129.20
Third Quarter 2013	368,000	4,000	125.13
Fourth Quarter 2013	276,000	3,000	122.36
Calendar Year 2014	1,275,000	3,493	116.64
Totals	3,773,000		
Average price			$123.56

Gasoline Swap Contracts

At March 31, 2013, the Company had the following derivatives related to gasoline sales in its fuel products segment, all of which are designated as cash flow hedges:

Gasoline Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2013	910,000	10,000	$121.20
Third Quarter 2013	184,000	2,000	114.73
Totals	1,094,000		
Average price			$120.11

At March 31, 2013, the Company had the following derivatives related to gasoline sales in its fuel products segment, none of which are designated as cash flow hedges:

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Gasoline Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
Second Quarter 2013	273,000	3,000	$121.41
Third Quarter 2013	92,000	1,000	105.50
Fourth Quarter 2013	92,000	1,000	105.50
Totals	457,000		
Average price			$115.00

At December 31, 2012, the Company had the following derivatives related to gasoline sales in its fuel products segment, all of which are designated as cash flow hedges:

Gasoline Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2013	630,000	7,000	$113.59
Second Quarter 2013	546,000	6,000	116.32
Third Quarter 2013	184,000	2,000	114.73
Totals	1,360,000		
Average price			$114.84

At December 31, 2012, the Company had the following derivatives related to gasoline sales in its fuel products segment, none of which are designated as cash flow hedges:

Gasoline Swap Contracts by Expiration Dates	Barrels Sold	BPD	Average Swap ($/Bbl)
First Quarter 2013	90,000	1,000	$105.50
Second Quarter 2013	91,000	1,000	105.50
Third Quarter 2013	92,000	1,000	105.50
Fourth Quarter 2013	92,000	1,000	105.50
Totals	365,000		
Average price			$105.50

9. Fair Value Measurements

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Observable inputs are from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. These tiers include the following:

•Level 1—inputs include observable unadjusted quoted prices in active markets for identical assets or liabilities

•Level 2—inputs include other than quoted prices in active markets that are either directly or indirectly observable

•Level 3—inputs include unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions

In determining fair value, the Company uses various valuation techniques and prioritizes the use of observable inputs. The availability of observable inputs varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded and other characteristics particular to the instrument. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants and the valuation does not require significant management judgment. For other financial instruments, pricing inputs are less observable in the marketplace and may require management judgment.

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Recurring Fair Value Measurements

Derivative Assets and Liabilities

Derivative instruments are reported in the accompanying unaudited condensed consolidated financial statements at fair value. The Company's derivative instruments consist of over-the-counter ("OTC") contracts, which are not traded on a public exchange. Substantially all of the Company's derivative instruments are with counterparties that have long-term credit ratings of at least Baa2 and BBB by Moody's and S&P, respectively.

To estimate the fair values of the Company's derivative instruments, the Company uses the market approach. Under this approach, the fair values of the Company's derivative instruments for crude oil, crude oil basis, gasoline, diesel, jet fuel, natural gas and interest rate swaps are determined primarily based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Generally, the Company obtains this data through surveying its counterparties and performing various analytical tests to validate the data. In situations where the Company obtains inputs via quotes from its counterparties, it verifies the reasonableness of these quotes via similar quotes from another counterparty as of each date for which financial statements are prepared. The Company also includes an adjustment for non-performance risk in the recognized measure of fair value of all of the Company's derivative instruments. The adjustment reflects the full credit default spread ("CDS") applied to a net exposure by counterparty. When the Company is in a net asset position it uses its counterparty's CDS, or a peer group's estimated CDS when a CDS for the counterparty is not available. The Company uses its own peer group's estimated CDS when it is in a net liability position. As a result of applying the applicable CDS at March 31, 2013, the Company's asset was reduced by less than $0.1 million and the liability was reduced by approximately $0.9 million. As a result of applying the CDS at December 31, 2012, the Company's asset was reduced by $0.1 million and the liability was reduced by approximately $0.2 million.

Based on the use of various unobservable inputs, principally non-performance risk and unobservable inputs in forward years for crude oil, crude oil basis, gasoline, jet fuel, diesel, natural gas and interest rate swaps, the Company has categorized these derivative instruments as Level 3. Significant increases (decreases) in any of those unobservable inputs in isolation would result in a significantly lower (higher) fair value measurement. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative instruments it holds. See Note 8 for further information on derivative instruments.

Pension Assets

Pension assets are reported at fair value using quoted market prices in the accompanying unaudited condensed consolidated financial statements. The Company's investments associated with its Pension Plan (as such term is hereinafter defined) primarily consist of (i) cash and cash equivalents, (ii) mutual funds that are publicly traded, (iii) a commingled fund and (iv) a balanced fund. The mutual and balanced funds are publicly traded and market prices are readily available; thus, these investments are categorized as Level 1. The commingled fund is categorized as Level 2 because inputs used in its valuation are not quoted prices in active markets that are indirectly observable and is valued at the net asset value of shares held by the Pension Plan at quarter end. See Note 12 for further information on pension assets.

Liability Awards

Unit based compensation liability awards are awards that are expected to be settled in cash on their vesting dates, rather than in equity units ("Liability Awards"). The fair value of the Company's Liability Awards are updated each balance sheet date based on the closing unit price on the balance sheet date. See Note 11 for further information on Liability Awards.

Renewable Identification Numbers Obligation

The Company's Renewable Identification Numbers ("RINs") obligation ("RINs Obligation") represents a liability for the purchase of RINs to satisfy the EPA requirement to blend biofuels into the fuel products it produces pursuant to the EPA's Renewable Fuel Standard. RINs are assigned to biofuels produced in the U.S. as required by the EPA. The EPA sets annual quotas for the percentage of biofuels that must be blended into transportation fuels consumed in the U.S., and as a producer of motor fuels from petroleum, the Company is required to blend biofuels into the fuel products it produces at a rate that will meet the EPA's annual quota. To the extent the Company is unable to blend biofuels at that

rate, it must purchase RINs in the open market to satisfy the annual requirement. The Company's RINs Obligation is based on the amount of RINs it must purchase and the price of those RINs as of the balance sheet date. The RINs Obligation is categorized as Level 1 and is measured at fair value using the market approach based on quoted prices from an independent pricing service.

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Hierarchy of Recurring Fair Value Measurements

The Company's recurring assets and liabilities measured at fair value at March 31, 2013 and December 31, 2012 were as follows (in millions):

	March 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Derivative assets:								
Crude oil swaps	$—	$—	$1.5	$1.5	$—	$—	$10.5	$10.5
Crude oil basis swaps	—	—	(0.2)	(0.2)	—	—	—	—
Gasoline swaps	—	—	0.9	0.9	—	—	0.3	0.3
Diesel swaps	—	—	(3.0)	(3.0)	—	—	(7.9)	(7.9)
Jet fuel swaps	—	—	1.8	1.8	—	—	0.2	0.2
Total derivative assets	—	—	1.0	1.0	—	—	3.1	3.1
Pension plan investments	37.6	2.7	—	40.3	38.9	2.7	—	41.6
Total recurring assets at fair value	$37.6	$2.7	$1.0	$41.3	$38.9	$2.7	$3.1	$44.7
Liabilities:								
Derivative liabilities:								
Crude oil swaps	$—	$—	$12.6	$12.6	$—	$—	$(35.8)	$(35.8)
Crude oil basis swaps	—	—	8.4	8.4	—	—	(3.4)	(3.4)
Gasoline swaps	—	—	(7.3)	(7.3)	—	—	(0.1)	(0.1)
Diesel swaps	—	—	(34.3)	(34.3)	—	—	(6.4)	(6.4)
Jet fuel swaps	—	—	(5.2)	(5.2)	—	—	(2.3)	(2.3)
Total derivative liabilities	—	—	(25.8)	(25.8)	—	—	(48.0)	(48.0)
RINs Obligation	—	(10.6)	—	(10.6)	—	(0.8)	—	(0.8)
Liability Awards	(3.7)	—	—	(3.7)	(2.2)	—	—	(2.2)
Total recurring liabilities at fair value	$(3.7)	$(10.6)	$(25.8)	$(40.1)	$(2.2)	$(0.8)	$(48.0)	$(51.0)

The table below sets forth a summary of net changes in fair value of the Company's Level 3 financial assets and liabilities for the three months ended March 31, 2013 and 2012 (in millions):

	Three Months Ended March 31,	
	2013	2012
Fair value at January 1,	$(44.9)	$14.9
Realized (gain) loss on derivative instruments	8.6	(9.4)
Unrealized gain on derivative instruments	24.5	26.0
Change in fair value of cash flow hedges	(17.3)	(173.0)
Settlements	4.3	50.8
Transfers in (out) of Level 3	—	—
Fair value at March 31,	$(24.8)	$(90.7)
Total gain included in net income attributable to changes in unrealized gain relating to financial assets and liabilities held as of March 31,	$24.5	$26.0

All settlements from derivative instruments that are deemed "effective" and were designated as cash flow hedges are included in sales for gasoline, diesel and jet fuel derivatives, cost of sales for crude oil and natural gas derivatives, and interest expense for interest rate derivatives in the unaudited condensed consolidated statements of operations in the

period that the hedged cash flow occurs. Any “ineffectiveness” associated with these derivative instruments is recorded in earnings in realized

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gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. All settlements from derivative instruments not designated as cash flow hedges are recorded in realized gain (loss) on derivative instruments in the unaudited condensed consolidated statements of operations. See Note 8 for further information on derivative instruments.

Nonrecurring Fair Value Measurements

Certain nonfinancial assets and liabilities are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition. Refer to Note 3 for the fair values of assets acquired and liabilities assumed in connection with the Missouri, TruSouth, Royal Purple, Montana and San Antonio Acquisitions.

The Company reviews for goodwill impairment annually on October 1 and whenever events or changes in circumstances indicate its carrying value may not be recoverable. The fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, corporate tax structure and product offerings. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation and risks associated with the reporting unit. These assets would generally be classified within Level 3, in the event that the Company were required to measure and record such assets at fair value within its unaudited condensed consolidated financial statements.

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including definite-lived intangible assets and property plant and equipment, when events or circumstances warrant such a review. Fair value is determined primarily using anticipated cash flows assumed by a market participant discounted at a rate commensurate with the risk involved and these assets would generally be classified within Level 3 in the event that the Company were required to measure and record such assets at fair value within its unaudited condensed consolidated financial statements.

Estimated Fair Value of Financial Instruments

Cash

The carrying value of cash is considered to be representative of their respective fair values.

Debt

The estimated fair value of long-term debt at March 31, 2013 consists primarily of the 2019 Notes, 2020 Notes and borrowings under the Company’s revolving credit facility. The estimated fair value of long-term debt at December 31, 2012 consists primarily of the 2019 and 2020 Notes. The fair values of the Company’s 2019 Notes were based upon quoted market prices in an active market and are classified as Level 1. The fair values of the Company’s 2020 Notes were based upon directly observable inputs and are classified as Level 2. The carrying value of borrowings, if any, under the Company’s revolving credit facility approximates its fair value as determined by discounted cash flows and is classified as Level 3. Capital lease obligations approximate their fair values as determined by discounted cash flows and are classified as Level 3. See Note 7 for further information on long-term debt.

The Company’s carrying and estimated fair value of the Company’s financial instruments, carried at adjusted historical cost, at March 31, 2013 and December 31, 2012 were as follows (in millions):

	March 31, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Instrument:				
2019 Notes	$668.0	$588.0	$658.8	$587.6
2020 Notes	$309.7	$270.5	$301.8	$270.4
Revolving credit facility	$29.2	$29.2	$—	$—
Capital lease and other obligations	$5.3	$5.3	$5.5	$5.5

10. Partners’ Capital

On January 8, 2013, the Company completed a public offering of its common units in which it sold 5,750,000 common units, including the overallotment option of 750,000 common units, to the underwriters of the offering at a price to the public of $31.81 per common unit. The proceeds received by the Company from this offering (net of underwriting discounts, commissions and expenses but before its general partner's capital contribution) were $175.5 million and were used to repay

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borrowings under its revolving credit facility and for general partnership purposes. Underwriting discounts totaled $7.4 million. The Company's general partner contributed $3.7 million to maintain its 2% general partner interest. The Company's distribution policy is defined in its partnership agreement. For the three months ended March 31, 2013 and 2012, the Company made distributions of $44.5 million and $28.2 million, respectively, to its partners. For the three months ended March 31, 2013 and 2012, the general partner was allocated $3.2 million and $0.5 million, respectively, in incentive distribution rights.

11. Unit-Based Compensation

A summary of the Company's nonvested phantom units as of March 31, 2013 and the changes during the three months ended March 31, 2013 is presented below:

Nonvested Phantom Units	Grant	Weighted Average Grant Date Fair Value Per Unit
Nonvested at December 31, 2012	835,927	$27.57
Granted	60,746	37.82
Vested	(56,202)	33.40
Forfeited	—	—
Nonvested at March 31, 2013	840,471	$24.84

For the three months ended March 31, 2013 and 2012, compensation expense of $2.5 million and $0.1 million, respectively, was recognized in the unaudited condensed consolidated statements of operations related to vested phantom unit grants, including $1.7 million attributable to Liability Awards for the three months ended March 31, 2013. See Note 9 for further information on the fair value of the Liability Awards. As of March 31, 2013 and 2012, there was a total of $20.9 million and $7.1 million, respectively, of unrecognized compensation costs related to nonvested phantom unit grants, including $15.2 million attributable to Liability Awards for the three months ended March 31, 2013. These costs are expected to be recognized over a weighted-average period of approximately three years.

12. Employee Benefit Plans

The components of net periodic pension and other postretirement benefits cost for the three months ended March 31, 2013 and 2012 were as follows (in millions):

	For the Three Months Ended March 31,			
	2013		2012	
	Pension Benefits	Other Post Retirement Employee Benefits	Pension Benefits	Other Post Retirement Employee Benefits
Service cost	$0.1	$—	$0.2	$ 0.1
Interest cost	0.6	—	0.6	0.1
Expected return on assets	(0.5)	—	(0.6)	—
Amortization of net loss	0.2	—	0.2	—
Net periodic benefit cost	$0.4	$—	$0.4	$ 0.2

The Company's investments associated with its Pension Plan primarily consist of (i) cash and cash equivalents, (ii) mutual funds that are publicly traded, (iii) a commingled fund and (iv) a balanced fund. The mutual and balanced funds are publicly traded and market prices are readily available; thus, these investments are categorized as Level 1. The commingled fund is categorized as Level 2 because inputs used in its valuation are not quoted prices in active markets that are indirectly observable and is valued at the net asset value of the shares held by the Pension Plan at quarter end. See Note 9 for the definition of Levels 1, 2 and 3. The Company's Pension Plan assets measured at fair value at March 31, 2013 and December 31, 2012 were as follows (in millions):

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	March 31, 2013 Pension Assets		December 31, 2012 Pension Assets	
	Level 1	Level 2	Level 1	Level 2
Cash and cash equivalents	$19.5	$—	$19.3	$—
Equity	7.0	—	5.9	—
Foreign equities	2.4	—	2.3	—
Commingled fund	—	2.7	—	2.7
Balanced fund	—	—	3.0	—
Fixed income	8.7	—	8.4	—
	$37.6	$2.7	$38.9	$2.7

13. Accumulated Other Comprehensive Loss

The table below sets forth a summary of reclassification adjustments out of accumulated other comprehensive loss in the Company's unaudited condensed consolidated statements of operations for the three months ended March 31, 2013 (in millions):

Components of Accumulated Other Comprehensive Loss	Amount Reclassified From Accumulated Other Comprehensive Loss	Location
Derivative losses reflected in gross profit		
	$(7.6)	Sales
	(4.0)	Cost of sales
	$(11.6)	Total
Amortization of defined benefit pension and post retirement health benefit plans:		
Amortization of net loss	$(0.2)	(1)
	$(0.2)	Total

(1) This accumulated other comprehensive loss component is included in the computation of net periodic pension cost. See Note 12 for additional details.

14. Earnings per Unit

The following table sets forth the computation of basic and diluted earnings per limited partner unit for the three months ended March 31, 2013 and 2012 (in millions, except unit and per unit data):

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	Three Months Ended March 31,	
	2013	2012
Numerator for basic and diluted earnings per limited partner unit:		
Net income	$46.0	$51.9
General partner's interest in net income	0.9	1.0
General partner's incentive distribution rights	3.2	0.5
Nonvested share based payments	0.2	0.3
Net income available to limited partners	$41.7	$50.1
Denominator for basic and diluted earnings per limited partner unit:		
Basic weighted average limited partner units outstanding	62,831,155	51,684,741
Effect of dilutive securities:		
Participating securities — phantom units	186,714	51,655
Diluted weighted average limited partner units outstanding	63,017,869	51,736,396
Limited partners' interest basic net income per unit	$0.67	$0.97
Limited partners' interest diluted net income per unit	$0.66	$0.97

15. Segments and Related Information

a. Segment Reporting

The Company has two reportable segments: specialty products and fuel products. The specialty products segment produces a variety of lubricating oils, solvents, waxes, synthetic lubricants, asphalt and other by-products. These products are sold to customers who purchase these products primarily as raw material components for basic automotive, industrial and consumer goods. The specialty products segment also blends and markets through the Company's brand Royal Purple. The fuel products segment produces a variety of fuel and fuel-related products including gasoline, diesel, jet fuel and heavy fuel oils. The Company is also engaged in the resale of purchased crude oil to third party customers. The Company sells the majority of the fuel products it produces to markets located in Arkansas, Canada, Idaho, Iowa, Louisiana, Michigan, Minnesota, Montana, North Dakota, South Dakota, Texas and Wisconsin. The Company also has the ability to ship additional fuel products to the Midwest region and the northern states bordering Canada through the Enterprise and Magellan pipelines should the need arise. The assets and results of the operations from such assets acquired as a result of the Montana Acquisition have been included in both the specialty products and fuel products segment since the date of acquisition, October 1, 2012. The assets and results of the operations from such assets acquired as a result of the San Antonio Acquisition have been included in the fuel products segment since the date of acquisition, January 2, 2013. The assets and results of operations from such assets acquired as a result of the Missouri, TruSouth and Royal Purple Acquisitions have been included in the specialty products segment since their dates of acquisition, January 3, 2012, January 6, 2012 and July 3, 2012, respectively.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in Note 2— "Summary of Significant Accounting Policies" in Part II, Item 8 "Financial Statements and Supplementary Data" of the Company's 2012 Annual Report. The Company evaluates segment performance based on operating income (loss). The Company accounts for intersegment sales and transfers at cost plus a specified mark-up.

Reportable segment information is as follows (in millions):

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Three Months Ended March 31, 2013	Specialty Products	Fuel Products	Combined Segments	Eliminations	Consolidated Total
Sales:					
External customers	$535.1	$783.5	$1,318.6	$—	$1,318.6
Intersegment sales	—	22.6	22.6	(22.6)	—
Total sales	$535.1	$806.1	$1,341.2	$(22.6)	$1,318.6
Depreciation and amortization	23.9	8.0	31.9	—	31.9
Operating income	4.5	49.9	54.4	—	54.4
Reconciling items to net income:					
Interest expense					(24.8)
Gain on derivative instruments					15.9
Other					0.7
Income tax expense					(0.2)
Net income					$46.0

Three Months Ended March 31, 2012	Specialty Products	Fuel Products	Combined Segments	Eliminations	Consolidated Total
Sales:					
External customers	$562.5	$607.1	$1,169.6	$—	$1,169.6
Intersegment sales	309.7	9.2	318.9	(318.9)	—
Total sales	$872.2	$616.3	$1,488.5	$(318.9)	$1,169.6
Depreciation and amortization	18.6	4.5	23.1	—	23.1
Operating income	28.7	6.3	35.0	—	35.0
Reconciling items to net income:					
Interest expense					(18.6)
Gain on derivative instruments					35.4
Other					0.2
Income tax expense					(0.1)
Net income					$51.9

b. Geographic Information

International sales accounted for less than 10% of consolidated sales in each of the three months ended March 31, 2013 and 2012. All of the Company’s long-lived assets are domestically located.

c. Product Information

The Company offers specialty products primarily in six general categories consisting of lubricating oils, solvents, waxes, packaged and synthetic specialty products, fuels and asphalt and other by-products. Fuel products primarily consist of gasoline, diesel, jet fuel and heavy fuel oils. The following table sets forth the major product category sales (in millions):

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	Three Months Ended March 31,					
	2013			2012		
Specialty products:						
Lubricating oils	$239.9	18	%	$288.8	25	%
Solvents	131.7	10	%	134.8	12	%
Waxes	32.8	2	%	37.2	3	%
Packaged and synthetic specialty products	59.5	5	%	26.2	2	%
Fuels	0.6	—	%	0.9	—	%
Asphalt and other by-products	70.6	6	%	74.6	6	%
Total	$535.1	41	%	$562.5	48	%
Fuel products:						
Gasoline	327.3	25	%	293.4	25	%
Diesel	305.3	23	%	240.7	21	%
Jet fuel	50.2	4	%	45.9	4	%
Heavy fuel oils and other	100.7	7	%	27.1	2	%
Total	$783.5	59	%	$607.1	52	%
Consolidated sales	$1,318.6	100	%	$1,169.6	100	%

d. Major Customers

During the three months ended March 31, 2013 and 2012, the Company had no customer that represented 10% or greater of consolidated sales.

16. Subsequent Events

On April 1, 2013, the Company completed a public offering of its common units in which it sold 5,250,000 common units to the underwriters of the offering at a price to the public of $37.50 per common unit. On April 4, 2013, the overallotment option of 787,500 common units was exercised by the underwriters at a price to the public of $37.50 per common unit. The proceeds received by the Company from this offering (net of underwriting discounts, commissions and expenses but before its general partner’s capital contribution) were $217.1 million and were used for general partnership purposes. Underwriting discounts totaled $9.1 million. The Company’s general partner contributed $4.6 million to maintain its 2% general partner interest.

On April 22, 2013, the Company declared a quarterly cash distribution of $0.68 per unit on all outstanding common units, or approximately $51.9 million (including the general partner’s incentive distribution rights) in aggregate, for the quarter ended March 31, 2013. The distribution will be paid on May 15, 2013 to unitholders of record as of the close of business on May 3, 2013. This quarterly distribution of $0.68 per unit equates to $2.72 per unit per year, or approximately $207.6 million (including the general partner’s incentive distribution rights) in aggregate on an annualized basis.

The fair value of the Company’s derivatives increased by approximately $35.0 million subsequent to March 31, 2013 to a net asset of approximately $10.0 million. The fair value of the Company’s long-term debt, excluding capital leases, has increased by approximately $13.0 million subsequent to March 31, 2013.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The historical condensed consolidated financial statements included in this Quarterly Report reflect all of the assets, liabilities and results of operations of Calumet Specialty Products Partners, L.P. ("Calumet," the "Company," "we," "our," or "us"). The following discussion analyzes the financial condition and results of operations of the Company for the three months ended March 31, 2013 and 2012. Unitholders should read the following discussion and analysis of the financial condition and results of operations for Calumet in conjunction with our 2012 Annual Report and the historical unaudited condensed consolidated financial statements and notes of the Company included elsewhere in this Quarterly Report.

Overview

We are a leading independent producer of high-quality, specialty hydrocarbon products in North America. We are headquartered in Indianapolis, Indiana and own facilities primarily located in Louisiana, Wisconsin, Montana, Texas and Pennsylvania. We own and lease additional facilities, primarily related to production and distribution of specialty products, throughout the U.S. Our business is organized into two segments: specialty products and fuel products. In our specialty products segment we process crude oil and other feedstocks into a wide variety of customized lubricating oils, white mineral oils, solvents, petrolatums, waxes and asphalt. 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. We also blend and market specialty products through our Royal Purple brand. In our fuel products segment we process crude oil into a variety of fuel and fuel-related products, including gasoline, diesel, jet fuel and heavy fuel oils, as well as reselling purchased crude oil to third party customers. In connection with our production of specialty products and fuel products, we also produce asphalt and a limited number of other by-products.

First Quarter 2013 Update

Our specialty products segment generated a gross profit margin of 11.8% during the first quarter 2013, consistent with the same period in 2012. Our specialty products segment performance was impacted by lower average selling prices per barrel quarter over quarter which outpaced the decline in the average cost of crude oil per barrel. In addition, specialty products sales volume declined 3.5% quarter over quarter, excluding the impact of incremental sales from the Royal Purple and Montana Acquisitions.

The fuel products segment generated a gross profit margin of 9.1% during the first quarter of 2013 compared to 2.9% in the same period of 2012 due primarily to widening market crack spreads and lower realized losses on crack spread hedges. Although the segment benefited from the incremental gross profit from acquisitions, lower production rates at our Shreveport refinery due to various reliability issues and a fuel products inventory build at the Superior refinery in advance of the planned April 2013 plantwide turnaround had a negative impact on segment performance, as sales volumes of legacy operations were down 13.6% quarter over quarter. Additionally, in accordance with the Renewable Fuel Standard mandating the blending of biofuels in transportation fuels, our Renewable Identification Numbers ("RINs") expense increased $7.5 million quarter over quarter as a result of increased RINs market pricing. As of March 31, 2013, we have 16.4 million barrels of crack spread derivatives outstanding for calendar years 2013 through 2016 at an average price of $28.28 per barrel, an increase of $6.88 over the average price as of March 31, 2012.

Due to the widespread geography of our operations, our financial performance is impacted by the relative pricing variation between and among various types of crude oil. The following table details average crude oil price differentials of Light Louisiana Sweet ("LLS") crude oil, Bakken light crude oil, Western Canadian Select ("WCS") crude oil and Bow River crude oil to NYMEX WTI crude oil (on a per barrel basis):

Average Per Barrel Crude Oil Pricing Differential to NYMEX WTI	Q1 2013	Q4 2012	Q1 2012
LLS	$19.57	$21.29	$16.86
Bakken	$(1.91)	$(3.05)	$(12.38)
WCS	$(26.62)	$(26.23)	$(26.53)
Bow River	$(30.97)	$(16.38)	$(20.00)

During the first quarter 2013, WCS heavy crude oil averaged $26.62 per barrel below NYMEX WTI, an increase of $0.09 from the same period in 2012. During the three months ended March 31, 2013, Bakken light crude oil averaged $1.91 per barrel below NYMEX WTI, a decrease of $10.47 from the same period in 2012. Both the WCS and Bakken

differentials to NYMEX WTI provide an unhedged crude oil cost advantage for our Superior refinery relative to NYMEX WTI pricing. During the first quarter 2013, Bow River heavy crude oil averaged $30.97 per barrel below NYMEX WTI, an increase of

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$10.97 over the same period in 2012, providing an unhedged crude oil cost advantage for our Montana refinery relative to NYMEX WTI pricing. On the product selling price side, while Group 3 diesel product pricing differentials to U.S. Gulf Coast pricing were not quite as strong as in the fourth quarter 2012, we saw more favorable product pricing differentials in the first quarter 2013, with the Group 3 gasoline pricing differential to U.S. Gulf Coast, for example, widening $2.07 per barrel compared to the average gasoline differential in the fourth quarter 2012. As we currently use U.S. Gulf Coast fuel product swaps to hedge a portion of our Group 3 fuel products selling price exposure, we continue to benefit when Group 3 pricing strengthens relative to U.S. Gulf Coast pricing.

On January 2, 2013, we completed the acquisition of NuStar Energy L.P.'s San Antonio, Texas refinery, together with related assets and the assumption of certain liabilities and obligations (the "San Antonio Acquisition"). Total consideration for the San Antonio Acquisition was approximately $117.7 million, net of cash acquired and excluding certain purchase price adjustments. The refinery has total crude oil throughput capacity of 14,500 bpd and primarily produces jet fuel, diesel, other fuel products and specialty solvents. The San Antonio Acquisition was funded with borrowings under our revolving credit facility with the balance through cash on hand. We believe the San Antonio Acquisition further diversifies our crude oil feedstock slate, operating asset base and geographical presence.

We used $35.0 million in cash flow from operations during the first quarter of 2013 primarily as a result of increased working capital requirements, primarily from the San Antonio Acquisition and from the winter fill of asphalt inventory. We generated Distributable Cash Flow (as defined below in "Non-GAAP Financial Measures") of $26.4 million and $39.2 million for the first quarter of 2013 and 2012, respectively, and paid distributions of $44.5 million to our unitholders in the first quarter of 2013, an increase of $16.3 million over the same period in 2012. We plan to continue focusing our efforts on generating positive cash flows from operations which we expect will be used to (i) improve our liquidity position, (ii) service our debt obligations, (iii) pay quarterly distributions to our unitholders and (iv) provide funding for general partnership purposes.

Key Performance Measures

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 materials are crude oil and other specialty feedstocks and our primary outputs are specialty petroleum products and fuel products. The prices of crude oil, specialty products 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 derivative instruments designed to mitigate the impact of commodity price fluctuations on our business. The primary purpose of our commodity risk management activities is to economically hedge our cash flow exposure to commodity price risk so that we can meet our cash distribution, debt service and capital expenditure requirements despite fluctuations in crude oil and fuel products prices. We enter into derivative contracts for future periods in quantities that do not exceed our projected purchases of crude oil and natural gas and sales of fuel products. Please read Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk." As of March 31, 2013, we have hedged refining margins, or crack spreads, on approximately 16.4 million barrels of fuel products through December 2016 at an average refining margin of $28.28 per barrel with average refining margins ranging from a low of $26.32 per barrel in 2015 to a high of $32.13 per barrel in the third quarter of 2013. Please refer to Note 8 — "Derivatives" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements" and Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk" for detailed information regarding our derivative instruments and our 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 products and fuel products sold as an important measure of our ability to effectively utilize our operating 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 facilities. Higher volumes improve profitability both through the spreading of fixed costs over greater volumes and the additional gross profit achieved on the incremental volumes.

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Production yields. In order to maximize our gross profit and minimize lower margin by-products, we seek the optimal product mix for each barrel of crude oil we refine, or feedstocks we, or third parties, process, which we refer to as production yield.

Specialty products and fuel products gross profit. Specialty products and fuel products gross profit are important measures of our ability to maximize the profitability of our specialty products and fuel products segments. We define specialty products and fuel products gross profit as sales less the cost of crude oil and other feedstocks and other production-related expenses, the most significant portion of which includes labor, plant fuel, utilities, contract services, maintenance, depreciation and processing materials. We use specialty products and fuel products gross profit as indicators 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 maintenance activities performed during a specific period. Our fuel products segment gross profit may differ from a standard U.S. Gulf Coast, Group 3, PADD 4 Billings, Montana or 3/2/1 and 2/1/1 market crack spreads due to many factors, including derivative activities to hedge both our fuel products segment revenues and the cost of crude oil reflected in gross profit, our fuel products mix as shown in our production table being different than the ratios used to calculate such market crack spreads, the allocation of by-product (primarily asphalt) losses to the fuel products segment, operating costs including fixed costs and actual crude oil costs differing from market indices and our local market pricing differentials for fuel products in the Shreveport, Louisiana, San Antonio, Texas, Superior, Wisconsin and Great Falls, Montana vicinities as compared to U.S. Gulf Coast, Group 3 and PADD 4 Billings, Montana postings.

In addition to the foregoing measures, we also monitor our selling and general and administrative expenditures.

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Results of Operations for the Three Months Ended March 31, 2013 and 2012

Production Volume. The following table sets forth information about our combined operations. Facility production volume differs from sales volume due to changes in inventories and the sale of purchased fuel product blendstocks such as ethanol, biodiesel and the resale of crude oil in our fuel products segment. The table includes the results of operations at our Missouri facility commencing on January 3, 2012, TruSouth facility commencing January 6, 2012, Royal Purple facility commencing July 3, 2012, Montana refinery commencing October 1, 2012 and San Antonio refinery commencing January 2, 2013.

	Three Months Ended March 31,			
	2013	2012	% Change	
	(In bpd)			
Total sales volume (1)	111,789	97,516	14.6	%
Total feedstock runs (2)	110,465	98,203	12.5	%
Facility production: (3)				
Specialty products:				
Lubricating oils	12,127	14,322	(15.3	)%
Solvents	8,561	9,107	(6.0	)%
Waxes	1,234	1,277	(3.4	)%
Packaged and synthetic specialty products (4)	1,950	1,140	71.1	%
Fuels	762	446	70.9	%
Asphalt and other by-products	17,956	15,223	18.0	%
Total	42,590	41,515	2.6	%
Fuel products:				
Gasoline	29,881	24,902	20.0	%
Diesel	23,843	23,122	3.1	%
Jet fuel	4,794	5,456	(12.1	)%
Heavy fuel oils and other	6,877	3,419	101.1	%
Total	65,395	56,899	14.9	%
Total facility production (3)	107,985	98,414	9.7	%

(1) Total sales volume includes sales from the production at Calumet's facilities and certain third-party facilities pursuant to supply and/or processing agreements, sales of inventories and the resale of crude oil to third party customers. Total sales volume includes the sale of purchased fuel product blendstocks such as ethanol and biodiesel as components of finished fuel products in our fuel products segment sales. The increase in total sales volume for the three months ended March 31, 2013 compared to the same quarter in 2012 is due primarily to incremental sales of fuel products, asphalt and packaged and synthetic specialty products resulting from the Royal Purple, Montana and San Antonio acquisitions partially offset by decreased sales of lubricating oils and fuel products at the Shreveport and Superior refineries.

(2) Total feedstock runs represent the barrels per day of crude oil and other feedstocks processed at Calumet's facilities and at certain third-party facilities pursuant to supply and/or processing agreements. The increase in total feedstock runs for the three months ended March 31, 2013 compared to the same period in 2012 is due primarily to incremental feedstock runs resulting from the Royal Purple, Montana and San Antonio Acquisitions, partially offset by reduced run rates at our Shreveport refinery during 2013 due to unscheduled downtime associated with various operational reliability issues and planned turnaround activity in 2013.

(3) Total facility production represents the barrels per day of specialty products and fuel products yielded from processing crude oil and other feedstocks at Calumet's facilities and at certain third-party facilities pursuant to supply and/or processing agreements. The difference between total facility production and total feedstock runs is

primarily a result of the time lag between the input of feedstocks and production of finished products and volume loss. The increase in total facility production for the three months ended March 31, 2013 compared to the same period in 2012 is due primarily to incremental production from acquisitions partially offset by lower run rates at the Shreveport refinery as discussed above in footnote 2 of this table.

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(4) Represents production of packaged and synthetic specialty products at our Royal Purple, TruSouth and Missouri facilities.

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

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Sales	$1,318.6	$1,169.6
Cost of sales	1,184.2	1,085.4
Gross profit	134.4	84.2
Operating costs and expenses:		
Selling	15.9	4.5
General and administrative	25.1	13.7
Transportation	35.4	27.5
Taxes other than income taxes	3.0	1.7
Other	0.6	1.8
Operating income	54.4	35.0
Other income (expense):		
Interest expense	(24.8)	(18.6)
Realized gain (loss) on derivative instruments	(8.6)	9.4
Unrealized gain on derivative instruments	24.5	26.0
Other	0.7	0.2
Total other income (expense)	(8.2)	17.0
Net income before income taxes	46.2	52.0
Income tax expense	0.2	0.1
Net income	$46.0	$51.9
EBITDA	$100.3	$90.2
Adjusted EBITDA	$80.0	$69.7
Distributable Cash Flow	$26.4	$39.2

Non-GAAP Financial Measures

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

EBITDA, Adjusted EBITDA and Distributable Cash Flow 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.

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We believe that these non-GAAP measures are useful to analysts and investors as they exclude transactions not related to our core cash operating activities and provide metrics to analyze our ability to pay distributions. We believe that excluding these transactions allows investors, commercial banks, research analysts and others to meaningfully trend and analyze the performance of our core cash operations.

We define EBITDA for any period as net income (loss) plus interest expense (including debt issuance and extinguishment costs), income taxes and depreciation and amortization.

We define Adjusted EBITDA for any period as: (1) net income (loss) plus (2)(a) interest expense; (b) income taxes; (c) depreciation and amortization; (d) unrealized losses from mark to market accounting for hedging activities; (e) realized gains under derivative instruments excluded from the determination of net income (loss); (f) non-cash equity based compensation expense and other non-cash items (excluding items such as accruals of cash expenses in a future period or amortization of a prepaid cash expense) that were deducted in computing net income (loss); (g) debt refinancing fees, premiums and penalties and (h) all extraordinary, unusual or non-recurring items of gain or loss, or revenue or expense; minus (3)(a) unrealized gains from mark to market accounting for hedging activities; (b) realized losses under derivative instruments excluded from the determination of net income and (c) other non-recurring expenses and unrealized items that reduced net income (loss) for a prior period, but represent a cash item in the current period.

We define Distributable Cash Flow for any period as Adjusted EBITDA less replacement capital expenditures, turnaround costs, cash interest expense (consolidated interest expense less non-cash interest expense) and income tax expense.

The definitions of Adjusted EBITDA and Distributable Cash Flow that are presented in this Quarterly Report reflect the calculation of “Consolidated Cash Flow” contained in the indentures governing our 2019 Notes and 2020 Notes (as defined in this Quarterly Report). We are required to report Consolidated Cash Flow to the holders of our 2019 Notes and 2020 Notes and Adjusted EBITDA to the commercial banks under our revolving credit facility, and these measures are used by them to determine our compliance with certain covenants governing those debt instruments. Distributable Cash Flow is used by us, our investors, commercial banks, research analysts and others to analyze our ability to pay distributions. Please refer to “Liquidity and Capital Resources” within this item for additional details regarding the covenants governing our debt instruments.

EBITDA, Adjusted EBITDA and Distributable Cash Flow should not be considered alternatives to net income, operating income, net cash provided by (used in) operating activities or any other measure of financial performance presented in accordance with GAAP. In evaluating our performance as measured by EBITDA, Adjusted EBITDA and Distributable Cash Flow, our management recognizes and considers the limitations of these measurements. EBITDA, Adjusted EBITDA and Distributable Cash Flow do not reflect our obligations for the payment of income taxes, interest expense or other obligations such as capital expenditures. Accordingly, EBITDA, Adjusted EBITDA and Distributable Cash Flow are only three of the measurements that management utilizes. Moreover, our EBITDA, Adjusted EBITDA and Distributable Cash Flow may not be comparable to similarly titled measures of another company because all companies may not calculate EBITDA, Adjusted EBITDA and Distributable Cash Flow in the same manner.

The following tables present a reconciliation of both net income to EBITDA, Adjusted EBITDA and Distributable Cash Flow, and Distributable Cash Flow, Adjusted EBITDA and EBITDA to net cash provided by (used in) operating activities, our most directly comparable GAAP financial performance and liquidity measures, for each of the periods indicated.

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	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Reconciliation of Net income to EBITDA, Adjusted EBITDA and Distributable Cash Flow:		
Net income	$46.0	$51.9
Add:		
Interest expense	24.8	18.6
Depreciation and amortization	29.3	19.6
Income tax expense	0.2	0.1
EBITDA	$100.3	$90.2
Add:		
Unrealized gain on derivatives	$(24.5)	$(26.0)
Realized gain (loss) on derivatives, not included in net income	(1.3)	1.4
Amortization of turnaround costs	2.6	3.5
Non-cash equity based compensation	2.9	0.6
Adjusted EBITDA	$80.0	$69.7
Less:		
Replacement capital expenditures (1)	$16.4	$5.3
Cash interest expense (2)	23.1	17.2
Turnaround costs	13.9	7.9
Income tax expense	0.2	0.1
Distributable Cash Flow	$26.4	$39.2

(1) Replacement capital expenditures are defined as those capital expenditures which do not increase operating capacity or reduce operating costs and exclude turnaround costs.

(2) Represents consolidated interest expense less non-cash interest expense.

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	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Reconciliation of Distributable Cash Flow, Adjusted EBITDA and EBITDA to Net cash provided by (used in) operating activities:		
Distributable Cash Flow	$26.4	$39.2
Add:		
Replacement capital expenditures (1)	16.4	5.3
Cash interest expense (2)	23.1	17.2
Turnaround costs	13.9	7.9
Income tax expense	0.2	0.1
Adjusted EBITDA	$80.0	$69.7
Less:		
Unrealized gain on derivative instruments	(24.5)	(26.0)
Realized gain (loss) on derivatives, not included in net income	(1.3)	1.4
Amortization of turnaround costs	2.6	3.5
Non-cash equity based compensation	2.9	0.6
EBITDA	$100.3	$90.2
Add:		
Unrealized gain on derivative instruments	(24.5)	(26.0)
Cash interest expense (2)	(23.1)	(17.2)
Non-cash equity based compensation	2.9	0.6
Amortization of turnaround costs	2.6	3.5
Income tax expense	(0.2)	(0.1)
Provision for doubtful accounts	0.3	0.3
Changes in assets and liabilities:		
Accounts receivable	(85.9)	(75.3)
Inventories	(51.4)	1.8
Other current assets	(1.7)	1.0
Turnaround costs	(13.9)	(7.9)
Derivative activity	(1.3)	1.4
Accounts payable	82.6	36.0
Accrued interest payable	5.3	13.8
Accrued income taxes payable	(27.6)	—
Other current liabilities	1.9	(5.2)
Other, including changes in noncurrent liabilities	(0.1)	—
Net cash provided by (used in) operating activities	$(33.8)	$16.9

(1) Replacement capital expenditures are defined as those capital expenditures which do not increase operating capacity or reduce operating costs and exclude turnaround costs.

(2) Represents consolidated interest expense less non-cash interest expense.

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Changes in Results of Operations for the Three Months Ended March 31, 2013 and 2012

Sales. Sales increased $149.0 million, or 12.7%, to $1,318.6 million in the three months ended March 31, 2013 from $1,169.6 million in the same period in 2012. The results of operations related to the Montana Acquisition have been included in both segments since the date of acquisition, October 1, 2012. The results of operations related to the San Antonio Acquisition have been included in the fuel products segment since the date of acquisition, January 2, 2013. The results of operations related to the Missouri, TruSouth and Royal Purple Acquisitions have been included in the specialty products segment since the dates of acquisition, January 3, 2012, January 6, 2012 and July 3, 2012, respectively. Sales for each of our principal product categories in these periods were as follows:

	Three Months Ended March 31,		
	2013	2012	% Change
	(Dollars in millions, except per barrel data)		
Sales by segment:			
Specialty products:			
Lubricating oils	$239.9	$288.8	(16.9)%
Solvents	131.7	134.8	(2.3)%
Waxes	32.8	37.2	(11.8)%
Packaged and synthetic specialty products (1)	59.5	26.2	127.1 %
Fuels (2)	0.6	0.9	(33.3)%
Asphalt and by-products (3)	70.6	74.6	(5.4)%
Total specialty products	$535.1	$562.5	(4.9)%
Total specialty products sales volume (in barrels)	3,419,000	3,427,000	(0.2)%
Average specialty products sales price per barrel	$156.51	$164.14	(4.6)%
Fuel products:			
Gasoline	$331.1	$309.7	6.9 %
Diesel	308.5	279.0	10.6 %
Jet fuel	50.8	57.8	(12.1)%
Heavy fuel oils and other (4)	100.7	27.1	271.6 %
Hedging activities loss	(7.6)	(66.5)	(88.6)%
Total fuel products	$783.5	$607.1	29.1 %
Total fuel products sales volume (in barrels)	6,642,000	5,447,000	21.9 %
Average fuel products sales price per barrel (excluding hedging activities)	$119.11	$123.67	(3.7)%
Average fuel products sales price per barrel (including hedging activities)	$117.96	$111.46	5.8 %
Total sales	$1,318.6	$1,169.6	12.7 %
Total sales volume (in barrels)	10,061,000	8,874,000	13.4 %

(1) Represents production of packaged and synthetic specialty products at the Royal Purple, TruSouth and Missouri facilities.

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

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

(4) Represents heavy fuel oils and other products produced in connection with the production of fuels at the Shreveport, Superior, San Antonio and Montana refineries and purchased crude oil sales from the Superior and San Antonio refineries to third parties.

The components of the $27.4 million specialty products segment sales decrease for the three months ended March 31, 2013 were as follows:

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	Dollar Change (Dollars in millions)
Acquisitions	$32.8
Sales price	(40.5)
Volume	(19.7)
Total specialty products segment sales decrease	$(27.4)

Specialty products segment sales decreased $27.4 million quarter over quarter, or 4.9%, primarily as a result of a decreased average selling price per barrel, partially offset by incremental sales from acquisitions. Legacy operations' sales decreased $40.5 million due to lower average selling prices per barrel of 7.5% driven by lower lubricating oils, packaged and synthetic products and asphalt average selling prices per barrel while the average cost of crude oil per barrel decreased 8.4%. The Royal Purple and Montana Acquisitions increased sales by $32.8 million which was all related to packaged and synthetic specialty products and asphalt. Legacy operations' sales volumes decreased 3.5% as compared to the same period in 2012, which resulted in a $19.7 million decrease in sales. The decrease in sales volume is due primarily to lower sales volumes of lubricating oils and waxes, partially offset by increased sales volume of packaged and synthetic specialty products due to market conditions.

The components of the $176.4 million fuel products segment sales increase for the three months ended March 31, 2013 were as follows:

	Dollar Change (Dollars in millions)
Acquisitions	$222.1
Sales price	(13.2)
Volume	(91.4)
Hedging activities	58.9
Total fuels products segment sales increase	$176.4

Fuel products segment sales increased $176.4 million quarter over quarter, or 29.1%, due primarily to incremental sales from acquisitions and a $58.9 million decrease in realized derivative losses recorded in sales on our fuel products cash flow hedges, partially offset by decreased sales volume from our legacy operations and a decrease in the average selling price per barrel. The acquisitions of Montana in 2012 and San Antonio in 2013 increased sales by $222.1 million. Calumet's legacy operations' sales volumes decreased 13.6% as a result of decreased run rates, primarily due to unscheduled down time caused by various reliability issues at the Shreveport refinery and fuel products inventory build in preparation for the April 2013 plantwide turnaround at the Superior refinery. Legacy operations' average selling price per barrel (excluding the impact of those realized hedging losses reflected in sales) decreased $2.82, or 2.3%, resulting in a $13.2 million decrease in sales, compared to a 12.2% decrease in the average price of crude oil per barrel.

Gross Profit. Gross profit increased $50.2 million, or 59.6%, to $134.4 million in the three months ended March 31, 2013 from $84.2 million in the same period in 2012. Gross profit for our specialty products and fuel products segments were as follows:

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	Three Months Ended March 31,					
	2013		2012		% Change	
	(Dollars in millions, except per barrel data)					
Gross profit by segment:						
Specialty products:						
Gross profit	$63.2		$66.5		(5.0	)%
Percentage of sales	11.8	%	11.8	%		
Specialty products gross profit per barrel	$18.48		$19.40		(4.7	)%
Fuel products:						
Gross profit excluding hedging activities	83.1		63.0		31.9	%
Hedging activities	(11.9	)	(45.3	)	(73.7	)%
Gross profit	71.2		17.7		302.3	%
Percentage of sales	9.1	%	2.9	%		
Fuel products gross profit per barrel (excluding hedging activities)	$12.51		$11.57		8.1	%
Fuel products gross profit per barrel (including hedging activities)	$10.72		$3.26		228.8	%
Total gross profit	$134.4		$84.2		59.6	%
Percentage of sales	10.2	%	7.2	%		

The components of the $3.3 million specialty products segment gross profit decrease for the three months ended March 31, 2013 were as follows:

	Dollar Change (Dollars in millions)		% of Sales	
Quarter ended March 31, 2012 reported gross profit	$66.5		11.8	%
Acquisitions	9.6		1.8	%
Sales price	(40.5	)	(7.6	)%
Volume	(3.7	)	—	%
Cost of materials	32.7		6.1	%
Operating costs	(1.4	)	(0.3	)%
Quarter ended March 31, 2013 reported gross profit	$63.2		11.8	%

The decrease in specialty products segment gross profit of $3.3 million quarter over quarter was due primarily to decreased average selling prices per barrel and decreased sales volume partially offset by lower cost of materials and acquisitions. Sales price and cost of materials, net, from our legacy operations decreased gross profit by $7.8 million, as the average selling price per barrel of specialty products decreased 7.5% compared to an 8.4% decrease in the average cost of crude oil per barrel. The Royal Purple and Montana Acquisitions contributed $9.6 million of gross profit.

The components of the $53.5 million fuel products segment gross profit increase for the three months ended March 31, 2013 were as follows:

	Dollar Change (Dollars in millions)		% of Sales	
Quarter ended March 31, 2012 reported gross profit	$17.7		2.9	%
Acquisitions	19.3		(0.2	)%
Sales price	(13.2	)	(1.7	)%
Volume	(15.8	)	—	%
Hedging activities	33.4		4.3	%
Cost of materials	38.9		5.0	%
Operating costs	(9.1	)	(1.2	)%
Quarter ended March 31, 2013 reported gross profit	$71.2		9.1	%

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The increase in fuel products segment gross profit of $53.5 million quarter over quarter was due primarily to increased gross profit from our legacy operations due to widening crack spreads as the decline in sales price was outpaced by the decline in cost of materials experienced in our local markets, decreased realized losses on derivatives of $33.4 million and $19.3 million of gross profit contributed from acquisitions, partially offset by decreased sales volume from our legacy operations. The 13.6% decline in legacy operations' sales volume was primarily due to unscheduled down time caused by various reliability issues at the Shreveport refinery and fuel products inventory build in preparation for the April 2013 plantwide turnaround at the Superior refinery. Operating costs increased $9.1 million primarily as a result of higher RINs costs in our legacy operations.

Selling. Selling expenses increased $11.4 million, or 253.3%, to $15.9 million in the three months ended March 31, 2013 from $4.5 million in the same period in 2012. This increase was due primarily to increased amortization expense of $6.2 million primarily related to the recording of intangible assets associated with the Royal Purple Acquisition, additional employee compensation costs from the Royal Purple Acquisition with no similar expenses in the prior year and increased advertising expenses of $3.0 million.

General and administrative. General and administrative expenses increased $11.4 million, or 83.2%, to $25.1 million in the three months ended March 31, 2013 from $13.7 million in the same period in 2012. The increase was due primarily to increased incentive compensation costs of $4.0 million, increased professional fees of $3.5 million due primarily to consulting fees related to our enterprise resource planning system installation and additional employee compensation costs from the Royal Purple, Montana and San Antonio Acquisitions, with no similar expenses in the prior year.

Transportation. Transportation expenses increased $7.9 million, or 28.7%, to $35.4 million in the three months ended March 31, 2013 from $27.5 million in the same period in 2012. This increase is due primarily to incremental transportation expenses related to sales from the Royal Purple, Montana and San Antonio Acquisitions.

Interest expense. Interest expense increased $6.2 million, or 33.3%, to $24.8 million in the three months ended March 31, 2013 from $18.6 million in the three months ended March 31, 2012, due primarily to additional outstanding long-term debt in the form of 2020 Notes issued to partially fund the Royal Purple Acquisition.

Derivative activity. The following table details the impact of our derivative instruments on the unaudited condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Derivative loss reflected in sales	$(7.6)	$(66.5)
Derivative gain (loss) reflected in cost of sales	(4.0)	23.7
Derivative losses reflected in gross profit	$(11.6)	$(42.8)
Realized gain (loss) on derivative instruments	$(8.6)	$9.4
Unrealized gain on derivative instruments	24.5	26.0
Total derivative gain (loss) reflected in the unaudited condensed consolidated statements of operations	$4.3	$(7.4)
Total loss on derivative settlements	$(21.5)	$(32.0)

Realized gain (loss) on derivative instruments. Realized gain (loss) on derivative instruments decreased $18.0 million to an $8.6 million loss in the three months ended March 31, 2013 from a $9.4 million gain for the three months ended March 31, 2012. The change was due primarily to an increased realized loss of approximately $32.6 million related to the settlements of derivative instruments used to economically hedge crack spreads at our Superior refinery that are not accounted for as hedges for accounting purposes and therefore are not reflected in gross profit. Partially offsetting this increased realized loss was a decreased realized loss of approximately $10.9 million due primarily to hedging ineffectiveness related to settlements of cash flow hedges and realized gains of approximately $3.0 million related to natural gas and crude oil derivative settlements included in our specialty products segment but not designated as cash

flow hedges.

Unrealized gain on derivative instruments. Unrealized gain on derivative instruments decreased $1.5 million to $24.5 million in the three months ended March 31, 2013 from $26.0 million in the three months ended March 31, 2012. The change was due primarily to decreased unrealized gains of approximately $15.6 million in 2013 related to derivative instruments used to economically hedge crack spreads that are not accounted for as cash flow hedges for accounting purposes. Partially offsetting this decreased unrealized gain was increased unrealized gain ineffectiveness of approximately $13.0 million.

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Liquidity and Capital Resources

General

The following should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included under Part II, Item 7 in our 2012 Annual Report. There have been no material changes in that information other than as discussed below. Also, see Note 7 — "Long-Term Debt" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements" for additional discussion related to our long-term debt.

Our principal sources of cash have historically included cash flow from operations, proceeds from public equity offerings, proceeds from notes offerings and bank borrowings. Principal uses of cash have included capital expenditures, acquisitions, distributions to our limited partners and general partner and debt service. We expect that our principal uses of cash in the future will be for distributions to our unitholders and general partner, debt service, replacement and environmental capital expenditures, capital expenditures related to internal growth projects and acquisitions from third parties or affiliates. We expect to fund future capital expenditures with current cash flow from operations and borrowings under our revolving credit facility. Future internal growth projects or acquisitions may require expenditures in excess of our then-current cash flow from operations and borrowing availability under our existing revolving credit facility and may require us to issue debt or equity securities in public or private offerings or incur additional borrowings under bank credit facilities to meet those costs.

Cash Flows from Operating, Investing and Financing Activities

We believe that we have sufficient liquid assets, cash flow from operations and borrowing capacity to meet our financial commitments, debt service obligations and anticipated capital expenditures. However, we are subject to business and operational risks that could materially adversely affect our cash flows. A material decrease in our cash flow from operations including a significant, sudden decrease in crude oil prices would likely produce a corollary material adverse effect on our borrowing capacity under our revolving credit facility and potentially our ability to comply with the covenants under our credit facilities. A significant, sudden increase in crude oil prices, if sustained, would likely result in increased working capital requirements which would be funded by borrowings under our revolving credit facility. In addition, our cash flow from operations may be impacted by the timing of settlements of our derivative activities. Gains and losses from derivative instruments that qualify as effective cash flow hedges are deferred in accumulated other comprehensive loss, but may impact operating cash flow in the period settled.

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

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Net cash provided by (used in) operating activities	$(35.0)	$16.9
Net cash used in investing activities	(148.0)	(54.2)
Net cash provided by financing activities	161.3	43.6
Net increase (decrease) in cash and cash equivalents	$(21.7)	$6.3

Operating Activities. Operating activities used cash of $35.0 million during the three months ended March 31, 2013 compared to providing cash of $16.9 million during the same period in 2012. The decrease in cash provided by operating activities is due primarily to an increase in working capital requirements, primarily increased accounts receivable and inventories for the three months ended March 31, 2013 compared to the same period in 2012 and decreased net income of $5.9 million.

Investing Activities. Cash used in investing activities increased to $148.0 million during the three months ended March 31, 2013 compared to $54.2 million during the three months ended March 31, 2012. The increase is due primarily to the higher purchase price of the San Antonio Acquisition of $117.7 million in 2013 compared to a combined purchase price of $46.4 million for the Missouri and TruSouth Acquisitions, which closed during 2012 and $9.2 million contributed to the Dakota Prairie Refining, LLC joint venture, with no such contributions in the prior period.

Financing Activities. Financing activities provided cash of $161.3 million in the three months ended March 31, 2013 compared to $43.6 million during the three months ended March 31, 2012. This change period over period is due primarily to net proceeds from the January 2013 public offering of common units (including our general partner's contribution) of $179.2

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million, partially offset by decreased revolver borrowings of $45.0 million and increased distributions to our unitholders of $16.3 million.

Equity Transactions

On January 8, 2013, we completed a public offering of our common units in which we sold 5,750,000 common units, including the overallotment option of 750,000 common units, to the underwriters of the offering at a price to the public of $31.81 per common unit. The proceeds received by us from this offering (net of underwriting discounts, commissions and expenses but before our general partner's capital contribution) were $175.5 million and were used to repay borrowings under our revolving credit facility and for general partnership purposes. Underwriting discounts totaled $7.4 million. Our general partner contributed $3.7 million to maintain its 2% general partner interest.

On April 1, 2013, we completed a public offering of our common units in which we sold 5,250,000 common units to the underwriters of the offering at a price to the public of $37.50 per common unit. On April 4, 2013, the overallotment option of 787,500 common units was exercised at a price to the public of $37.50 per common unit. The proceeds received by us from this offering (net of underwriting discounts, commissions and expenses but before our general partner's capital contribution) were $217.1 million and were used for general partnership purposes. Underwriting discounts totaled $9.1 million. Our general partner contributed $4.6 million to maintain its 2% general partner interest.

On April 22, 2013, we declared a quarterly cash distribution of $0.68 per unit on all outstanding common units, or approximately $51.9 million (including our general partner's incentive distribution rights) in aggregate, for the quarter ended March 31, 2013. The distribution will be paid on May 15, 2013 to unitholders of record as of the close of business on May 3, 2013. This quarterly distribution of $0.68 per unit equates to $2.72 per unit per year, or approximately $207.6 million (including our general partner's incentive distribution rights) in aggregate on an annualized basis.

Acquisitions

On January 2, 2013, we completed the acquisition of the San Antonio, Texas refinery, together with the associated crude oil pipeline, crude oil terminal, other operating and logistics assets and inventories of NuStar Refining, LLC and NuStar Logistics, L.P., both wholly owned subsidiaries of NuStar Energy L.P., for aggregate consideration of approximately $117.7 million, subject to certain post-closing adjustments. The San Antonio refinery produces jet fuel, diesel, other fuel products and specialty solvents. The San Antonio Acquisition was funded primarily with borrowings under our revolving credit facility with the balance through cash on hand. We believe the San Antonio Acquisition further diversifies our crude oil feedstock slate, operating asset base and geographical presence.

Joint Venture

On February 7, 2013, we 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. The refinery is expected to process 20,000 bpd of Bakken crude oil to serve product demand in the region. Construction of the refinery began during the first quarter of 2013 with startup of the refinery expected late in the fourth quarter of 2014. The refinery's total construction cost is estimated at approximately $300.0 million. The capitalization of the joint venture is expected to be funded through contributions of $150.0 million from MDU and $75.0 million from us and proceeds of $75.0 million from an unsecured syndicated term loan facility with the joint venture as the borrower. The term loan facility was funded in April 2013. Funding for the project will occur over the course of the construction period, with the majority of the direct funding by us and MDU expected to occur in 2014. The diesel refinery is expected to be operational in the fourth quarter of 2014. During the three months ended March 31, 2013 we contributed $9.2 million to the Dakota Prairie Refining, LLC joint venture. The joint venture will allocate profits on a 50%/50% basis to us and MDU. We will cover the debt service cost of the lower interest rate term loan facility pursuant to the joint venture agreement. The joint venture will be governed by a board of managers comprised of representatives from both us and MDU. MDU will provide a portion of the crude oil supply to the refinery, as well as natural gas and electricity utility services. We will provide refinery operations, crude oil procurement and refined product marketing expertise to the joint venture.

Capital Expenditures

Our capital expenditure requirements consist of capital improvement expenditures, replacement capital expenditures and environmental capital expenditures. Capital improvement expenditures include expenditures to acquire assets to grow our business, to expand existing facilities, such as projects that increase operating capacity, or to reduce operating costs. Replacement capital expenditures replace worn out or obsolete equipment or parts. Environmental capital expenditures include asset additions to meet or exceed environmental and operating regulations.

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

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Capital improvement expenditures	$4.7	$4.4
Replacement capital expenditures	7.9	1.3
Environmental capital expenditures	8.5	4.0
Total	$21.1	$9.7

We anticipate that future capital expenditure requirements will be provided primarily through cash from operations and available borrowings under our revolving credit facility. Our environmental capital expenditures have increased during the three months ended March 31, 2013 as compared to the same period in 2012 due primarily to expenditures related to the Global Settlement with the LDEQ and OSHA compliance matters. Please read Note 6 of Part I, Item 1 "Financial Statements—Commitments and Contingencies—Environmental — Occupational Health and Safety" for additional information on the Global Settlement and OSHA compliance issues.

We estimate our replacement and environmental capital expenditures will be approximately $18.0 million per quarter for the remainder of 2013. These estimated amounts for 2013 include a portion of the $1.0 million to $4.0 million in environmental projects to be spent over the next three years as required by our settlement with the LDEQ under the "Small Refinery and Single Site Refining Initiative." Please read Note 6 of Part I, Item 1 "Financial Statements—Commitments and Contingencies—Environmental — Occupational Health and Safety" for additional information.

Additionally, we anticipate turnaround spending requirements will be approximately $50.0 million for the remainder of 2013 related to scheduled turnarounds at our Superior, Montana and San Antonio refineries. We expect these expenditures will be funded primarily through cash flow from operations.

We have several capital improvement projects under consideration including capacity expansions at certain of our facilities, as well as planned investments such as the joint venture located in North Dakota with MDU. We currently estimate that these organic growth opportunities could lead to capital improvement expenditures over the next two years of approximately $400.0 million. Decisions to proceed on such projects are based on several factors, including, but not limited to, feasibility studies, cost estimates, availability of funding sources and, in certain cases, required approval of the board of directors of our general partner. Due to these factors, the estimated amount to be spent in 2013 on capital improvement projects is approximately $100.0 million to $200.0 million.

Debt and Credit Facilities

As of March 31, 2013, our primary debt and credit instruments consisted of:

- an $850.0 million senior secured revolving credit facility maturing in June 2016, subject to borrowing base limitations, with a maximum letter of credit sublimit equal to $680.0 million, which is the greater of (i) $400.0 million and (ii) 80% of revolver commitments in effect;
- $600.0 million of 9 3/8% senior notes due 2019 ("2019 Notes"); and
- $275.0 million of 9 5/8% senior notes due 2020 ("2020 Notes").

As of March 31, 2013, we believe we were in compliance with all covenants under the debt instruments in place at March 31, 2013 and have adequate liquidity to conduct our business.

Short Term Liquidity

As of and for the three months ended March 31, 2013, our principal sources of short-term liquidity were (i) $482.9 million of availability under our revolving credit facility and (ii) $10.5 million of cash. Borrowings under our revolving credit facility can be used for, among other things, working capital, capital expenditures, and other lawful partnership purposes including acquisitions.

Borrowings under the revolving credit facility are limited to a borrowing base that is determined based on advance rates of percentages of Eligible Accounts Receivable and Eligible Inventory (as defined in the revolving credit agreement). As such, the borrowing base can fluctuate based on changes in selling prices of our products and our

current material costs, primarily the cost of crude oil. On March 31, 2013, we had availability on our revolving credit facility of $482.9 million, based on a $695.2

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million borrowing base, $183.1 million in outstanding standby letters of credit and $29.2 million in outstanding borrowings. The borrowing base cannot exceed the revolving credit facility commitments then in effect. The lender group under our revolving credit facility is comprised of a syndicate of thirteen lenders with total commitments of $850.0 million. The lenders under our revolving credit facility have a first priority lien on our cash, accounts receivable, inventory and certain other personal property.

Amounts outstanding under our revolving credit facility fluctuate materially during each quarter mainly due to normal changes in working capital, payments of quarterly distributions to unitholders and debt service costs. Specifically, the amount borrowed under our revolving credit facility is typically at its highest level after we pay for the majority of our crude oil supplies on the 20th day of every month per standard industry terms. The maximum revolving credit facility borrowings during the quarter ended March 31, 2013 were $131.7 million. Nonetheless, our availability on our revolving credit facility during the peak borrowing days of a quarter has been ample to support our operations and service upcoming requirements. During the quarter ended March 31, 2013, availability for additional borrowings under our revolving credit facility was approximately $271.4 million at its lowest point. We believe that we will continue to have sufficient cash flow from operations and borrowing availability under our revolving credit facility to meet our financial commitments, minimum quarterly distributions to our unitholders, debt service obligations, debt instrument covenants, contingencies and anticipated capital expenditures.

The revolving credit facility currently bears interest at a rate equal to prime plus a basis points margin or LIBOR plus a basis points margin, at our option. As of March 31, 2013, this margin was 100 basis points for prime and 225 basis points for LIBOR; however, the margin can fluctuate quarterly based on our average availability for additional borrowings under the revolving credit facility in the preceding calendar quarter.

In addition to paying interest on outstanding borrowings under the revolving credit facility, we are required to pay a commitment fee to the lenders under the revolving credit facility with respect to the unutilized commitments thereunder at a rate equal to either 0.375% or 0.50% per annum depending on the average daily available unused borrowing capacity for the preceding month. We also pay a customary letter of credit fee, including a fronting fee of 0.125% per annum of the stated amount of each outstanding letter of credit, and customary agency fees.

Our revolving credit facility contains various covenants that limit, among other things, our ability to: incur indebtedness; grant liens; dispose of certain assets; make certain acquisitions and investments; redeem or prepay other debt or make other restricted payments such as distributions to unitholders; enter into transactions with affiliates; and enter into a merger, consolidation or sale of assets. The revolving credit facility generally permits us to make cash distributions to our unitholders as long as immediately after giving effect to such a cash distribution we have cash and availability under the revolving credit facility totaling at least the greater of (i) 15% of the lesser of (a) the Borrowing Base (as defined in the credit agreement) without giving effect to the LC Reserve (as defined in the credit agreement) and (b) the revolving credit facility commitments then in effect and (ii) $45.0 million. Further, the revolving credit facility contains one springing financial covenant which provides that only if our availability under the revolving credit facility falls below the greater of (i) 12.5% of the lesser of (a) the Borrowing Base (as defined in the credit agreement) (without giving effect to the LC Reserve (as defined in the credit agreement)) and (b) the credit agreement commitments then in effect and (ii) $46.4 million, we will be required to maintain as of the end of each fiscal quarter a Fixed Charge Coverage Ratio (as defined in the credit agreement) of at least 1.0 to 1.0.

If an event of default exists under the revolving credit facility, the lenders will be able to accelerate the maturity of the credit facility and exercise other rights and remedies. An event of default includes, among other things, the 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 revolving credit facility or other loan documents, subject, in limited circumstances, to certain grace periods; cross-defaults in other indebtedness if the effect of such default is to cause, or permit the holders of such indebtedness to cause, the acceleration of such indebtedness under any material agreement; bankruptcy or insolvency events; monetary judgment defaults; asserted invalidity of the loan documentation; and a change of control.

For additional information regarding our revolving credit facility, see Note 7 of Part I, Item 1 “Financial Statements—Long-Term Debt” and Note 6 “Long-Term Debt” in Part II, Item 8 “Financial Statements and Supplementary Data” in our 2012 Annual Report.

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Long-Term Financing

In addition to our principal sources of short-term liquidity listed above, we can meet our cash requirements (other than distributions of cash from operations to our common unitholders) through the issuance of long-term notes or additional common units.

From time to time we issue long-term debt securities, often referred to as our senior notes. All of our outstanding senior notes are unsecured obligations that rank equally with all of our other senior debt obligations to the extent they are unsecured. As of March 31, 2013 and December 31, 2012, we had $600.0 million in 2019 Notes and $275.0 million in 2020 Notes outstanding.

The indentures governing the 2019 and 2020 Notes contain covenants that, among other things, restrict our ability and the ability of certain of our subsidiaries to: (i) sell assets; (ii) pay distributions on, redeem or repurchase our common units or redeem or repurchase its subordinated debt; (iii) make investments; (iv) incur or guarantee additional indebtedness or issue preferred units; (v) create or incur certain liens; (vi) enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us; (vii) consolidate, merge or transfer all or substantially all of our assets; (viii) engage in transactions with affiliates and (ix) create unrestricted subsidiaries. These covenants are subject to important exceptions and qualifications. At any time when the 2019 or 2020 Notes are rated investment grade by both Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services and no Default or Event of Default, each as defined in the indentures governing the 2019 or 2020 Notes, has occurred and is continuing, many of these covenants will be suspended.

Upon the occurrence of certain change of control events, each holder of the 2019 and 2020 Notes will have the right to require that we repurchase all or a portion of such holder’s 2019 and 2020 Notes in cash at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest to the date of repurchase.

To date, our debt balances have not adversely affected our operations, our ability to grow or our ability to repay or refinance our indebtedness. Based on our historical record, we believe that our capital structure will continue to allow us to achieve our business objectives.

We are subject, however, to conditions in the equity and debt markets for our common units and long-term senior notes, and there can be no assurance we will be able or willing to access the public or private markets for our common units and/or senior notes in the future. If we are unable or unwilling to issue additional common units, we may be required to either restrict capital expenditures and/or potential future acquisitions or pursue debt financing alternatives, some of which could involve higher costs or negatively affect our credit ratings. Furthermore, our ability to access the public and private debt markets is affected by our credit ratings. For additional information regarding our 2019 and 2020 Notes, see Note 7 — “Long-Term Debt” under Part I, Item 1 “Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements” and Note 6 — “Long-Term Debt” in Part II, Item 8 “Financial Statements and Supplementary Data” of our 2012 Annual Report.

Master Derivative Contracts and Collateral Trust Agreement

Under our credit support arrangements, our payment obligations under all of our master derivatives contracts for commodity hedging generally are secured by a first priority lien on our and our subsidiaries’ real property, plant and equipment, fixtures, intellectual property, certain financial assets, certain investment property, commercial tort claims, chattel paper, documents, instruments and proceeds of the foregoing (including proceeds of hedge arrangements). We have also issued to one counterparty a $25.0 million standby letter of credit under the revolving credit facility. In the event that such counterparty’s exposure to us exceeds $200.0 million, we will be required to post additional collateral support in the form of either cash or letters of credit with the party to enter into additional crack spread hedges with this counterparty. We had no additional letters of credit or cash margin posted with any hedging counterparty as of March 31, 2013. Our master derivatives contracts and Collateral Trust Agreement (as defined below) continue to impose a number of covenant limitations on our operating and financing activities, including limitations on liens on collateral, limitations on dispositions of collateral and collateral maintenance and insurance requirements. For financial reporting purposes, we do not offset the collateral provided to a counterparty against the fair value of our obligation to that counterparty. Any outstanding collateral is released to us upon settlement of the related derivative instrument liability.

The fair value of our derivatives increased by approximately $35.0 million subsequent to March 31, 2013 to a net asset of approximately $10.0 million. All credit support thresholds with our hedging counterparties are at levels such that it would take a substantial increase in fuel products crack spreads to require significant additional collateral to be posted. As a result, we do not expect further increases in fuel products crack spreads to significantly impact our liquidity.

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Additionally, we have a collateral trust agreement (the "Collateral Trust Agreement") which governs how secured hedging counterparties will share collateral pledged as security for the payment obligations owed by us to secured hedging counterparties under their respective master derivatives contracts. The Collateral Trust Agreement limits to $100.0 million the extent to which forward purchase contracts for physical commodities would be covered by, and secured under, the Collateral Trust Agreement. There is no such limit on financially settled derivative instruments used for commodity hedging. Subject to certain conditions set forth in the Collateral Trust Agreement, we have the ability to add secured hedging counterparties from time to time.

Contractual Obligations and Commercial Commitments

A summary of our total contractual cash obligations as of March 31, 2013 at current maturities and reflects only those line items that have materially changed since December 31, 2012 is as follows:

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In millions)				
Operating activities:					
Interest on long-term debt at contractual rates (1)	$558.4	$90.2	$176.9	$167.2	$124.1
Operating lease obligations (2)	105.3	23.8	34.1	21.2	26.2
Letters of credit (3)	183.1	183.1	—	—	—
Purchase commitments (4)	1,367.6	1,254.3	112.9	0.4	—
Financing activities:					
Capital lease obligations	5.3	0.7	0.7	0.7	3.2
Long-term debt obligations, excluding capital lease obligations	904.2	—	—	29.2	875.0
Total obligations	$3,123.9	$1,552.1	$324.6	$218.7	$1,028.5

(1) Interest on long-term debt at contractual rates and maturities relates primarily to our 2019 and 2020 Notes, revolving credit facility and capital lease obligations.

(2) We have various operating leases primarily for railcars, the use of land, storage tanks, compressor stations, equipment, precious metals and office facilities that extend through June 2026.

(3) Letters of credit primarily supporting crude oil purchases, precious metals leasing and hedging activities.

(4) Purchase commitments consist primarily of obligations to purchase fixed volumes of crude oil and other feedstocks and finished products for resale from various suppliers based on current market prices at the time of delivery.

In connection with the closing of the acquisition of Penreco on January 3, 2008, we entered into a feedstock purchase agreement with Phillips 66 related to the LVT unit at its Lake Charles, Louisiana refinery (the "LVT Feedstock Agreement"). Pursuant to the LVT Feedstock Agreement, Phillips 66 is obligated to supply a minimum quantity (the "Base Volume") of feedstock for the LVT unit for a term of ten years. Based upon this minimum supply quantity, we expect to purchase $75.5 million of feedstock for the LVT unit in each fiscal year of the term based on pricing estimates as of March 31, 2013. This amount is not included in the table above.

For additional information regarding our expected capital and turnaround expenditures for the remainder of 2013 and 2014, for which we have not contractually committed, refer to "Capital Expenditures" above.

Off-Balance Sheet Arrangements

We did not enter into any material off-balance sheet debt or operating lease transactions during the three months ended March 31, 2013.

Critical Accounting Policies and Estimates

For additional discussion regarding our critical accounting policies and estimates, see "Critical Accounting Policies and Estimates" under Part II, Item 7 of our 2012 Annual Report.

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Recent Accounting Pronouncements

For additional discussion regarding recent accounting pronouncements, see Note 2 — "New and Recently Adopted Accounting Pronouncements" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements."

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following should be read in conjunction with "Quantitative and Qualitative Disclosures About Market Risk" included under Part II, Item 7A in our 2012 Annual Report. There have been no material changes in that information other than as discussed below. Also, see Note 8 — "Derivatives" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements" in this Quarterly Report for additional discussion related to derivative instruments and hedging activities.

Commodity Price Risk

Derivative Instruments

We are exposed to price risks due to fluctuations in the price of crude oil, refined products (primarily in our fuel products segment) and natural gas. We use various strategies to reduce our exposure to commodity price risk. We do not attempt to eliminate all of our risk as the costs of such actions are believed to be too high in relation to the risk posed to our future cash flows, earnings and liquidity. The strategies to reduce our risk utilize both physical forward contracts and financially settled derivative instruments such as swaps, futures and options to attempt to reduce our exposure with respect to:

•crude oil purchases;
•refined product sales;
•natural gas purchases; and
•fluctuations in the value of crude oil between geographic regions and between the different types of crude oil such as NYMEX WTI, LLS and WCS.

As of March 31, 2013, we have entered into swap contracts on forecasted purchases from 2013 through 2016 for 16.4 million barrels of NYMEX WTI crude oil and forecasted sales of 1.6 million barrels of U.S. Gulf Coast conventional gasoline, 12.1 million barrels of U.S. Gulf Coast ultra-low sulfur diesel and 2.7 million barrels of U.S. Gulf Coast jet fuel. These derivative instruments, on a combined basis, were entered into to hedge a portion of our gross profit in our fuels products segment. Please read Note 8 — "Derivatives" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements" for a discussion of the accounting treatment for the various types of derivative instruments, and a further discussion of our hedging policies.

We also enter into basis swap contracts that improve the effectiveness of our crude oil swap contracts by locking in the spread between NYMEX WTI and the crude oil that we are actually purchasing for use by our refineries. As of March 31, 2013, we had 1.6 million barrels of crude oil basis swap contracts locking in the differential between NYMEX WTI and WCS crude oil or LLS crude oil. Please read Note 8 — "Derivatives" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements" for additional information.

The following table provides a summary of the implied crack spreads for the crude oil, diesel, jet fuel and gasoline swaps, as well as our WCS or LLS crude oil versus NYMEX WTI crude oil basis swaps as of March 31, 2013 in our fuels products segment which we disclose in Note 8 — "Derivatives" under Part I, Item 1 "Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements".

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	Barrels	BPD	Implied Crack Spread ($/Bbl)
Second Quarter 2013	2,912,000	32,000	$31.48
Third Quarter 2013	1,794,000	19,500	32.13
Fourth Quarter 2013	1,472,000	16,000	29.55
Calendar Year 2014	5,110,000	14,000	26.70
Calendar Year 2015	4,781,500	13,100	26.32
Calendar Year 2016	366,000	1,000	26.55
Totals	16,435,500		
Average price			$28.28

Our derivative instruments and overall fuel products hedging positions are monitored regularly by our risk management committee, which includes our executive officers. The risk management committee reviews market information and our hedging positions regularly to determine if additional derivative activity is required. A summary of derivative positions and a summary of hedging strategy are presented to our general partner’s board of directors quarterly.

Holding all other variables constant, we expect a $1 increase in the applicable commodity prices would change our recorded mark-to-market valuation by the following amounts based upon the volumes hedged as of March 31, 2013:

	In millions
Crude oil swaps	$16.4
Crude oil basis swaps	$1.6
Diesel swaps	$(12.1)
Jet fuel swaps	$(2.7)
Gasoline swaps	$(1.6)

Interest Rate Risk

We have an $850.0 million revolving credit facility as of March 31, 2013 and December 31, 2012, with borrowings bearing interest at the prime rate or LIBOR, at our option, plus the applicable margin. We have $29.2 million of variable rate debt and no interest rate swaps outstanding as of March 31, 2013. Borrowings under this facility are variable and at the time of borrowing we assess whether or not to enter into an interest rate swap to fix the rate. 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, 2013 would be expected to have an impact on net income and cash flows for 2013 of approximately $0.3 million.

For our fixed rate 2019 and 2020 Notes, changes in interest rates will generally affect the fair value, but not our interest expense or cash flows. The following table provides information about the fair value of our debt instruments.

	March 31, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In millions)			
Financial Instrument:				
2019 Notes	$668.0	$588.0	$658.8	$587.6
2020 Notes	$309.7	$270.5	$301.8	$270.4

Foreign Currency Risk

We have minimal exposure to foreign currency risk and as such the cost of hedging this risk is viewed to be in excess of the benefit of further reductions in our exposure to foreign currency exchange rate fluctuations.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2013 at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

On January 1, 2013, we implemented an enterprise resource planning ("ERP") system on a company-wide basis, which is expected to improve the efficiency of certain financial and related transaction processes. The implementation resulted in business and operational interruptions, which required changes to our internal controls over financial reporting. We believe we have designed adequate controls into and around the new ERP system, which includes performing significant procedures, both within the ERP and outside the ERP, to monitor, review and reconcile financial activity for the first quarter of fiscal 2013 to ensure ongoing reliability of our financial reporting.

On January 3, 2012, January 6, 2012, July 3, 2012, October 1, 2012 and January 2, 2013, we completed the Missouri, TruSouth, Royal Purple, Montana and San Antonio Acquisitions, respectively, which include certain existing information systems and internal controls over financial reporting that previously existed. We are currently in the process of evaluating and integrating the Missouri, TruSouth, Royal Purple, Montana and San Antonio Acquisitions' historical internal controls over financial reporting with ours. We expect to complete the integration of Missouri, TruSouth, Royal Purple and Montana in fiscal year 2013 and the integration of San Antonio in fiscal year 2014.

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PART II

Item 1. Legal Proceedings

We are not a party to, and our property is not the subject of, any pending legal proceedings other than ordinary routine litigation incidental to our business. Our operations are subject to a variety of risks and disputes normally incidentental to our business. As a result, we may, at any given time, be a defendant in various legal proceedings and litigation arising in the ordinary course of business. The information provided under Note 6 — “Commitments and Contingencies” in Part I, Item 1 “Financial Statements—Notes to Unaudited Condensed Consolidated Financial Statements” is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the risk factor set forth below, you should carefully consider the risk factors discussed in Part I, Item 1A “Risk Factors” in our 2012 Annual Report, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. There have been no material changes in the risk factors discussed in Part I, Item IA “Risk Factors” in our 2012 Annual Report other than with respect to the risk factor discussed below.

Renewable transportation fuels mandates may reduce demand for the petroleum fuels we produce, which could have a material adverse effect on our results of operations and financial condition, and our ability to make distributions to our unitholders.

Pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007, the EPA has issued Renewable Fuels Standards (“RFS”) implementing mandates to blend renewable transportation fuels such as, for example, ethanol and advanced biofuels into the petroleum fuels produced in, or imported into, the U.S. Under RFS, the volume of renewable transportation fuels that obligated refineries like the Shreveport, Superior, Montana and San Antonio refineries blend into their finished petroleum fuels increases annually over time until 2022. We may meet these RFS requirements by blending the necessary volumes of renewable transportation fuels obtained from third parties, from purchases of Renewable Identification Number credits (“RINs”) in the open market that are generated by third parties, or through a combination of blending of renewable transportation fuels and purchase of RINs. To the extent that we exceed the minimum volumetric requirements for blending of renewable transportation fuels, we generate our own RINs for which we have the option of retaining the RINs for current or future RFS compliance or selling those RINs on the open market.

We currently purchase RINs for some fuel categories on the open market to comply with the RFS and, in the future, we may be required to purchase additional RINs beyond the amount we currently purchase on the open market in order to maintain compliance with the RFS. In 2012, we purchased approximately 38.2 million RINs and sold approximately 5.0 million RINs. The RFS mandate for 2013 has increased, and our recent acquisitions of our Montana and San Antonio refineries in October 2012 and January 2013, respectively, together with other changes in our overall refining system, will impact the total amount of RINs that we may need to obtain in 2013 or future years to comply with the RFS mandate. The purchase price for RINs has increased significantly in 2013 as compared to past years and we cannot currently predict the future prices or availability of RINs or the total extent of our ability to mitigate our future RFS compliance expenses such as, by example, increasing the blending of transportation fuels that qualify for RINs in our refining system or passing on some of the increased costs associated with RFS compliance to our customers. The costs to obtain the necessary number of RINs in 2013 and beyond could be material and have a material adverse effect on our results of operations and financial condition as well as on the refining industry in general. Finally, while there is no current regulatory standard that authenticates RINs that may be purchased on the open market from third parties, we believe that the RINs we purchase are from reputable sources, are valid and serve to demonstrate compliance with applicable RFS requirements.

On October 13, 2010, the EPA granted a partial waiver raising the maximum amount of ethanol allowed under federal law from 10% to 15% for cars and light trucks manufactured since 2007, and on January 21, 2011, EPA extended the maximum allowable ethanol content of 15% to apply to cars and light trucks manufactured since 2001. The maximum amount allowed under federal law currently remains at 10% ethanol for all other vehicles. EPA required that fuel and fuel additive manufacturers take certain steps before introducing gasoline containing 15% ethanol (“E15”) into the

market, including developing and obtaining EPA approval of a plan to minimize the potential for E15 to be used in vehicles and engines not covered by the partial waiver. EPA has taken several recent actions to authorize the introduction of E15 into the market, including approving, on June 15, 2012, the first plans to minimize the potential for E15 to be used in vehicles and engines not covered by the partial waiver. Existing laws and regulations could change, and the minimum volumes of renewable transportation fuels that must be blended with refined petroleum fuels may increase. Because we do not produce renewable

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transportation fuels at all of our refineries, increasing the volume of renewable transportation fuels that must be blended into our products displaces an increasing volume of our Shreveport, Superior, Montana and San Antonio refineries' fuel products pool, potentially resulting in lower earnings and materially adversely affecting our ability to make distributions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

	Total Number of Common Units Purchased	Average Price Paid per Common Unit	Total Number of Common Units Purchased as a Part of Publicly Announced Plans	Maximum Number of Common Units that May Yet be Purchased Under Plans
January 1, 2013 - January 31, 2013	—	$—	—	—
February 1, 2013 - February 28, 2013 (1)	8,900	38.04	—	—
March 1, 2013 - March 31, 2013 (1)	117,071	39.46	—	—
Total	125,971	$39.36	—	—

(1) A total of 125,971 common units were purchased by our general partner, Calumet GP, LLC, related to the Calumet GP, LLC Long-Term Incentive Plan (the "LTIP"). The LTIP provides for the delivery of up to 783,960 common units to satisfy awards of phantom units, restricted units or unit options to the employees, consultants or directors of the Company. Such units may be newly issued by the Company or purchased in the open market. None of the common units were purchased pursuant to publicly announced plans or programs. The common units were purchased through a single broker in open market transactions. For more information on the LTIP, refer to Part III, Item 11 "Executive and Director Compensation — Compensation Discussion and Analysis — Elements of Executive Compensation — Long-Term, Unit-Based Awards" in our 2012 Annual Report.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

The following documents are filed as exhibits to this Quarterly Report:

Exhibit Number	Description
3.1	Certificate of Limited Partnership of Calumet Specialty Products Partners, L.P. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 filed with the Commission on October 7, 2005 (File No. 333-128880)).
3.2	Amended and Restated Limited Partnership Agreement of Calumet Specialty Products Partners, L.P. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on February 13, 2006 (File No. 000-51734)).
3.3	Amendment No. 1 to the First Amended and Restated Agreement of Limited Partnership of Calumet Specialty Products Partners, L.P. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on July 11, 2006 (File No. 000-51734)).
3.4	Amendment No. 2 to First Amended and Restated Agreement of Limited Partnership of Calumet Specialty Products Partners, L.P. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 18, 2008 (File No. 000-51734)).
3.5	Certificate of Formation of Calumet GP, LLC (incorporated by reference to Exhibit 3.3 of Registrant's Registration Statement on Form S-1 filed with the Commission on October 7, 2005 (File No. 333-128880)).
3.6	Amended and Restated Limited Liability Company Agreement of Calumet GP, LLC (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Commission on February 13, 2006 (File No. 000-51734)).
31.1*	Sarbanes-Oxley Section 302 certification of F. William Grube.
31.2*	Sarbanes-Oxley Section 302 certification of R. Patrick Murray, II.
32.1*	Section 1350 certification of F. William Grube and R. Patrick Murray, II.
100.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

*	Filed herewith.
**	XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of the registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CALUMET SPECIALTY PRODUCTS PARTNERS, L.P.	
	By:	Calumet GP, LLC, its general partner
Date: May 10, 2013	By:	/s/ R. Patrick Murray, II R. Patrick Murray, II Senior Vice President, Chief Financial Officer and Secretary of Calumet GP, LLC (Principal Accounting and Financial Officer) (Authorized Person and Principal Accounting Officer)

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