Delek US Holdings, Inc.
Form 10-K
March 03, 2008

Table of Contents

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

**Form 10-K**

(Mark One)

| | |
|---|---|
| þ | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the fiscal year ended December 31, 2007** |
| | **OR** |
| o | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the transition period from to** |

**Commission file number 1-6841**

**DELEK US HOLDINGS, INC.**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware**<br>*(State or other jurisdiction of incorporation or organization)* | **52-2319066**<br>*(I.R.S. employer identification no.)* |
| **7102 Commerce Way**<br>**Brentwood, Tennessee**<br>*(Address of principal executive offices)* | **37027**<br>*(Zip code)* |

**Registrant s telephone number, including area code**
**(615) 771-6701**
**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| Common Stock, $.01 par value | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments of this Form 10-K. þ

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the common stock held by non-affiliates as of June 29, 2007 was approximately $313,884,020, based upon the closing sale price of the registrant s common stock on the New York Stock Exchange on that date. For purposes of this calculation only, all directors, officers subject to Section 16(b) of the Securities Exchange Act of 1934, and 10% stockholders are deemed to be affiliates.

At February 28, 2008, there were 53,668,195 shares of common stock, $.01 par value, outstanding.

**Documents incorporated by reference**

Portions of the registrant s definitive Proxy Statement to be delivered to stockholders in connection with the 2008 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2007, are incorporated by reference into Part III of this Form 10-K.

**TABLE OF CONTENTS**

Table of Contents

Unless otherwise indicated or the context requires otherwise, the terms Delek, we, our, company and us are used this report to refer to Delek US Holdings, Inc. and its consolidated subsidiaries. Statements in this Annual Report on Form 10-K, other than purely historical information, including statements regarding our plans, strategies, objectives, beliefs, expectations and intentions are forward looking statements. These forward looking statements generally are identified by the words may, will, should, could, would, predicts, intends, believes, expects, plans, anticipates, estimates and similar expressions. Forward- looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, including those discussed below and in Item 1A, Risk Factors, which may cause actual results to differ materially from the forward-looking statements. See also Forward-Looking Statements included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K.

# PART I

## ITEM 1. *BUSINESS*

### Company Overview

We are a diversified energy business focused on petroleum refining, wholesale sales of refined products and retail marketing. Our business consists of three operating segments: refining, marketing and retail. Our refining segment operates a 60,000 barrels per day ( bpd ) high conversion, moderate complexity, independent refinery in Tyler, Texas. Our marketing segment sells refined products on a wholesale basis in west Texas through company-owned and third-party operated terminals. Our retail segment markets gasoline, diesel, other refined petroleum products and convenience merchandise through a network of 497 company-operated retail fuel and convenience stores located in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Tennessee and Virginia. We also own a 34.6% minority equity interest in Lion Oil Company, a privately held Arkansas corporation, which owns and operates a moderate conversion, independent refinery with a design crude distillation capacity of 75,000 barrels per day, and other pipeline and product terminals. The refinery is located in El Dorado, Arkansas.

Delek US Holdings, Inc. is the sole shareholder of MAPCO Express, Inc. ( Express ), MAPCO Fleet, Inc. ( Fleet ), Delek Refining, Inc. ( Refining ), Delek Finance, Inc. ( Finance ) and Delek Marketing & Supply, Inc. ( Marketing ). We are a Delaware corporation formed in connection with our acquisition in May 2001 of 198 retail fuel and convenience stores from a subsidiary of The Williams Companies. Since then, we have completed several other acquisitions of retail fuel and convenience stores. In April 2005, we expanded our scope of operations to include complementary petroleum refining and wholesale and distribution businesses by acquiring the Tyler refinery. We initiated operations of our marketing segment in August 2006 with the purchase of assets from Pride Companies LP and affiliates.

Delek and Express were incorporated during April 2001 in the State of Delaware. Fleet, Refining, Finance, and Marketing were incorporated in the State of Delaware during January 2004, February 2005, April 2005 and June 2006, respectively.

We are a controlled company under the rules and regulations of the New York Stock Exchange where our shares are traded under the symbol DK. As of December 31, 2007, approximately 73.4% of our outstanding shares were beneficially owned by Delek Group Ltd. ( Delek Group ), a conglomerate that is domiciled and publicly traded in Israel. Delek Group has significant interests in fuel supply businesses and is controlled indirectly by Mr. Itshak Sharon ( Tshuva ).

Table of Contents

**Acquisitions**

We have rapidly integrated our refinery acquisition, six convenience store chain acquisitions, a pipeline and terminal acquisition and several smaller acquisitions since our formation in May 2001. Our principal acquisitions since inception are summarized below:

| Date | Acquired Company/Assets | Acquired From | Approximate Purchase Price(1) |
|---|---|---|---|
| May 2001 | MAPCO Express, Inc., with 198 retail fuel and convenience stores | Williams Express, Inc. | $162.5 million |
| June 2001 | 36 retail fuel and convenience stores in Virginia | East Coast Oil Corporation | $40.1 million |
| February 2003 | Seven retail fuel and convenience stores | Pilot Travel Centers | $11.9 million |
| April 2004 | Williamson Oil Co., Inc., with 89 retail fuel and convenience stores in Alabama, and a wholesale fuel and merchandise operation | Williamson Oil Co., Inc. | $19.8 million, plus assumed debt of $28.6 million |
| April 2005 | Refinery, pipeline and other refining, product terminal and crude oil pipeline assets located in and around Tyler, Texas, including physical inventories of crude oil, intermediaries and light products ( Tyler refinery ) | La Gloria Oil and Gas Company | $68.1 million, including $25.9 million of prepaid crude inventory and $38.4 million of assumed crude vendor liabilities |
| December 2005 | 21 retail fuel and convenience stores, a network of four dealer-operated stores, four undeveloped lots and inventory in the Nashville, Tennessee area | BP Products North America, Inc. | $35.5 million |
| July 2006 | 43 retail fuel and convenience stores located in Georgia and Tennessee | Fast Petroleum, Inc. and affiliates | $50.0 million, including $0.1 million of cash acquired |
| August 2006 | Refined petroleum product terminals, seven pipelines, storage tanks, idle oil refinery equipment and rights under supply contracts | Pride Companies, L.P. and affiliates | $55.1 million |
| April 2007 | 107 retail fuel and convenience stores located in northern Georgia and | Calfee Company of Dalton, Inc. and affiliates | $71.8 million, including $0.1 million of cash acquired |

| | | | |
|---|---|---|---|
| | southeastern Tennessee | | |
| August and September 2007 | 34.6% equity ownership in Lion Oil Company, an owner and operator of a refinery in El Dorado, Arkansas and other pipeline and product terminals | TransMontaigne, Inc. and other shareholders of Lion Oil | $88.2 million and 1,916,667 unregistered shares of our common stock, which are subject to registration rights |

(1) Excludes transaction costs

Table of Contents

We expect to continue to review acquisition and internal growth opportunities in the refining, marketing, retail fuel and convenience store markets, as well as opportunities to acquire assets related to distribution logistics, such as pipelines, terminals and fuel storage facilities. Please see Item 1A, Risk Factors, of this Annual Report on Form 10-K as well as our other filings with the SEC for a description of the risks and uncertainties that are inherent in our acquisition strategy.

**Information About Our Segments**

We prepare segment information on the same basis that management reviews financial information for operational decision making purposes. Additional segment and financial information is contained in our segment results included in Item 6, Selected Financial Data, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and in Note 11, Segment Data, of our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

***Refining Segment***

We operate a high conversion, moderate complexity independent refinery with a design crude distillation capacity of 60,000 bpd, along with an associated crude oil pipeline and light products loading facilities. The refinery is located in Tyler, Texas, and is the only supplier of a full range of refined petroleum products within a radius of approximately 115 miles.

The Tyler refinery is situated on approximately 100 out of a total of approximately 600 contiguous acres of land (excluding pipelines) that we own in Tyler and adjacent areas. The Tyler refinery includes a fluid catalytic cracking ( FCC ) unit and a delayed coker, enabling us to produce approximately 91% light products, including primarily a full range of gasoline, diesel, jet fuels, liquefied petroleum gas ( LPG ) and natural gas liquids ( NGLs ) and has a Nelson complexity of 8.9. For 2007, gasoline accounted for approximately 54.3% and diesel and jet fuels accounted for approximately 36.6% of the Tyler refinery s fiscal production.

As the only full range product supplier in east Texas, our location is a natural advantage over other suppliers. The transportation cost of moving product into Tyler stands as a barrier for competitors. We see this differential as a margin enhancement.

*Fuel Customers.* We have the advantage of being able to deliver nearly all of our gasoline and diesel fuel production into the local market using our terminal at the refinery. Our customers generally have strong credit profiles and include major oil companies, independent refiners and marketers, jobbers, distributors, utility and transportation companies, and independent retail fuel operators. Our refinery s ten largest customers accounted for $998.6 million, or 58.9%, of net sales for the refining segment in 2007. Our customers include ExxonMobil, Valero Marketing and Supply, Murphy Oil USA, Truman Arnold and Chevron, among others. Although none of our customers accounted for 10% or more of our consolidated net sales in 2007, ExxonMobil accounted for approximately 13.2% of net sales for the refining segment in 2007. Our product pipeline sales are specific to Chevron and represent 6.2% of the refining segment s net sales. Additionally, we have a contract with the U.S. government to supply jet fuel ( JP8 ) to various military facilities that expires in March 31, 2008. The U.S. government solicits competitive bids for this contract annually. Sales under this contract totaled $35.8 million, or 2.1%, of the refining segment s 2007 net sales.

The Tyler refinery does not generally supply fuel to our retail fuel and convenience stores, since it is not located in the same geographic region as our stores.

*Refinery Design and Production.* The Tyler refinery has a crude oil processing unit with a 60,000 bpd atmospheric column and an 18,000 bpd vacuum tower. The other major process units at the Tyler refinery include a 20,200 bpd fluid catalytic cracking unit, a 6,500 bpd delayed coking unit, a 21,000 bpd naphtha hydrotreating unit, a 22,000 bpd distillate hydrotreating unit, a 17,500 bpd continuous regeneration reforming unit, a 5,000 bpd isomerization unit, and an alkylation unit with a capacity of 4,700 bpd.

The Tyler refinery is designed to mainly process light, sweet crude oil, which is a higher quality, more expensive crude oil than heavier and more sour crude oil. Our owned and leased pipelines are connected to five crude oil pipeline systems that allow us access to east Texas, west Texas and foreign sweet crude oils. A small amount of local east Texas crude oil is also delivered to the refinery by truck. The table below sets forth information concerning crude oil received at the Tyler refinery in 2007:

| Source | Percentage of Crude Oil Received |
|---|---|
| East Texas crude oil | 52.1% |
| West Texas intermediate crude oil | 38.4% |
| West Texas sour crude oil | 7.7% |
| Foreign sweet and other domestic crude oil | 1.8% |

Upon delivery to the Tyler refinery, crude oil is sent to a distillation unit, where complex hydrocarbon molecules are separated into distinct boiling ranges. The processed crude oil is then treated in specific units of the refinery, and the resulting distilled and treated fuels are pumped to blending units to create the desired finished fuel product. A summary of our production output for 2007 follows:

*Gasoline.* Gasoline accounted for approximately 54.3% of our refinery s production. The refinery produces two grades of conventional gasoline (premium 93 octane and regular), as well as aviation gasoline. Effective January 1, 2008, we began offering renewable E-10 products which contain 90% conventional fuel and 10% ethanol.

*Diesel/jet fuels.* Diesel and jet fuel products accounted for approximately 36.6% of our refinery s production. Diesel and jet fuel products include military specification JP8, commercial jet fuel, low sulfur diesel, and ultra low sulfur diesel. Low sulfur diesel was replaced by ultra low sulfur diesel beginning in September 2006.

*Petrochemicals.* We produced small quantities of propane, refinery grade propylene and butanes.

*Other products.* We produced small quantities of other products, including anode grade coke, slurry oil, sulfur and other blendstocks.

The table below sets forth information concerning the historical throughput and production at the Tyler refinery for the last three fiscal years. The data for periods prior to April 29, 2005, or the acquisition date for the Tyler refinery and related assets, has been derived from the internal financial records of the previous owner.

| | Year Ended December 31, 2007 | | Year Ended December 31, 2006 | | Period from April 29 Through December 31, 2005(1) | | Year Ended December 31, 2005(2) | |
|---|---|---|---|---|---|---|---|---|
| | Bpd | % | Bpd | % | Bpd | % | Bpd | % |
| Refinery throughput (average barrels per day): | | | | | | | | |
| Crude: | | | | | | | | |
| Light | 49,711 | 88.5% | 55,998 | 96.3% | 51,906 | 97.7% | 48,251 | 96.8% |
| Sour | 4,149 | 7.4 | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total crude | 53,860 | 95.9 | 55,998 | 96.3 | 51,906 | 97.7 | 48,251 | 96.8 |
| Other blendstocks | 2,303 | 4.1 | 2,130 | 3.7 | 1,244 | 2.3 | 1,584 | 3.2 |
| Total refinery throughput | 56,163 | 100.0% | 58,128 | 100.0% | 53,150 | 100.0% | 49,835 | 100.0% |
| Products produced (average barrels per day): | | | | | | | | |
| Gasoline | 29,660 | 54.3% | 30,163 | 53.3% | 26,927 | 52.2% | 25,744 | 53.0% |
| Diesel/jet | 20,010 | 36.6 | 21,816 | 38.6 | 20,779 | 40.2 | 18,688 | 38.5 |
| Petrochemicals, LPG, NGLs | 2,142 | 3.9 | 2,280 | 4.0 | 2,218 | 4.3 | 1,983 | 4.0 |
| Other | 2,848 | 5.2 | 2,324 | 4.1 | 1,684 | 3.3 | 2,185 | 4.5 |
| Total production | 54,660 | 100.0% | 56,583 | 100.0% | 51,608 | 100.0% | 48,600 | 100.0% |

(1) Effective April 29, 2005, we completed the acquisition of the Tyler refinery and related assets. Information includes throughput and production data for the 247 day period in fiscal 2005 that we operated the refinery.

(2) Information includes throughput and production data for the full year 2005, including pre-acquisition and post-acquisition periods, and reflects reductions resulting from a turnaround conducted by the previous owner during the first quarter of 2005 and a three-week turnaround conducted by us in the fourth quarter of 2005.

*Profitability Improvements.* In 2007, Delek commenced work on three low complexity projects at the Tyler refinery which were identified in a 2006 feasibility study. This study identified these projects as providing estimated potential returns on investment of 50%. The projects have been designed to provide incremental refining segment contribution margin by allowing the processing of a lower cost (heavier, more sour) crude slate, as well as to reduce current operational bottlenecks in certain processing units. We expect these projects to be substantially completed in the fourth quarter of 2008 with the associated upgrade of our FCC reactor to be completed by the end of the first quarter in 2009. We may experience increases in the cost or delay in the completion date necessary to obtain equipment required to complete these projects, as is a possibility with any capital project. Additionally, the scope of the work, cost of qualified employees and contractor labor expense related to the installation of equipment are all at risk of increases. We currently estimate the cost of these projects to total $65.0 million which is an increase of $10.0 million over our previous estimate of $55.0 million.

During the third quarter of 2006, two significant capital projects were completed that allowed us to produce 100% of our diesel pool as ultra low sulfur diesel and provided improved and more reliable sulfur handling capability at the refinery. These projects were comprised of the expansion and modification of the Diesel Hydrotreater Unit and the installation of a new 35 long ton per day Sulfur Recovery Unit and Tail Gas Treating Unit. The completion of these two projects concluded the first phase of our Clean Fuels capital program. The second phase of the Clean Fuels program is the installation of a Gasoline Hydrotreater, which we anticipate will be completed in the second quarter of 2008.

*Storage Capacity.* Storage capacity at the Tyler refinery, including tanks along our pipeline, totals approximately 2.5 million barrels, consisting of approximately 1.1 million barrels of crude oil storage and 1.4 million barrels of refined and intermediate product storage.

*Supply and Distribution.* The majority of the crude oil purchased for the Tyler refinery is east Texas crude oil. Most of the east Texas crude oil processed in our refinery is delivered to us by truck or through our company-owned pipeline and a leased pipeline from Nettleton Station in Longview, Texas. This represents an inherent cost advantage due to our ability to purchase crude oil on its way to the market, as opposed to purchasing from a market or trade location. Crude oil is purchased during the trading month and priced during the calendar month to achieve the refinery crack spread of the day. The proximity of our refinery to receive both domestic and foreign barrels affords us the opportunity to replace barrels with financially advantaged alternatives on short notice.

Our ability to access west Texas intermediate ( WTI ) or foreign sweet crude oil, when available, at competitive prices has been a significant competitive supply cost advantage at the refinery. These alternate supply sources allow us to optimize the refinery operation and utilization while also allowing us to more favorably negotiate the cost and quality of the local east Texas crude oil we purchase.

The McMurrey Pipeline System, which we own, consists of approximately 65 miles of six-inch crude oil lines that transport crude oil to the Tyler refinery. We currently operate the main trunk line, and the following pump stations and terminals that are also owned by us:

| | |
|---|---|
| *Atlas Tank Farm:* | One 145,000 barrel tank and one 300,000 barrel tank |
| *Nettleton Station:* | Five 54,000 barrel tank |
| *Bradford Station:* | One 54,000 barrel tank and one 9,000 barrel tank |
| *ARP Station:* | Two 54,000 barrel tanks |

The vast majority of our transportation fuels and other products are sold by truck directly from the refinery. We operate a nine lane transportation fuels truck rack with a wide range of additive options, including proprietary packages dedicated for use by our major oil company customers. Capabilities at our rack include the ability to simultaneously blend finished components prior to loading trucks. LPG, NGLs and clarified slurry oil are sold by truck from dedicated loading facilities at the refinery. Effective January 1, 2008, we also began selling renewable E-10 products at our truck rack. We also have a pipeline connection for the sale of propane into a facility owned by Texas Eastman. We sell petroleum coke primarily by rail from the refinery, with occasional truck loading for specialty or excess product. All of our ethanol is currently transported to the refinery by truck. Ethanol tank capacity is currently limited to 7,700 barrels.

Table of Contents

The remainder of our transportation fuels are sold by pipeline to a single, pipeline-connected terminal owned by Chevron. We transport these products on TEPPCO pipeline to a point of interconnection to a Chevron-owned pipeline terminating in Big Sandy, Texas.

*Competition.* The refining industry is highly competitive and includes fully integrated national and multinational oil companies engaged in many segments of the petroleum business, including exploration, production, transportation, refining, marketing and retail fuel and convenience stores. Our principal competitors are Texas Gulf Coast refiners, product terminal operators in the east Texas region and Calumet Lubricants in Shreveport, Louisiana. The principal competitive factors affecting our refinery operations are crude oil and other feedstock costs, refinery product margins, refinery efficiency, refinery product mix, and distribution and transportation costs. Certain of our competitors operate refineries that are larger and more complex and in different geographical regions than ours, and, as a result, could have lower per barrel costs, higher margins per barrel and throughput or utilization rates which are better than us. We have no crude oil reserves and are not engaged in exploration or production. We believe; however, our geographic location provides an inherent advantage because our competitors have an inherent transportation cost. Our location allows for a realized margin that is favorable in comparison to the reported U.S. Gulf Coast 5-3-2 crack spread.

***Marketing Segment***

Formed initially in connection with the acquisition of the assets of the Pride Companies, L.P. and its affiliates effective August 1, 2006, the marketing segment furthered our strategy of becoming a fully integrated provider of fuels and related products. Through this segment, we sell refined products on a wholesale basis in west Texas through company-owned and third party operated terminals. To grow our presence in this segment, we intend to implement the following initiatives:

- further develop and leverage our existing marketing and distribution capabilities and experience using the assets acquired from Pride Companies, L.P.;

- more fully utilize our favorable supply contract with Magellan Asset Services LP ( Magellan );

- develop exchange opportunities between our segments; and

- expand our base of operations through acquisitions.

Our marketing segment generates net sales through five integrated activities:

i. transportation of petroleum products through pipelines and company-owned truck loading terminals in Abilene and San Angelo, Texas;

ii. direct sales of petroleum products to third parties through truck racks in San Angelo, Abilene, Aledo, Odessa and Big Springs, Texas and other terminals throughout the Magellan Orion pipeline system;

iii. supplying product to exchange partners at the Abilene, San Angelo and Aledo, Texas terminals;

iv. marketing services provided to our Tyler refinery for both wholesale marketing and contract sales; and

v. a margin-sharing arrangement with our Tyler refinery of 50% of wholesale margins above a contractually defined threshold.

*Petroleum Product Marketing Terminals.* The marketing segment markets its products through three company-owned terminals in San Angelo, Abilene and Tyler, Texas and third-party terminal operations in Aledo, Odessa and Big Springs, Texas. The San Angelo terminal began operations in 1991 and has operated continuously. The Abilene terminal began operations in the 1950 s and has undergone routine upgrading. At each terminal, products are loaded on two loading lanes each having four bottom-loading arms. The loading racks are fully automated and unmanned during the night. The Tyler terminal was built in the 1970 s and was most recently expanded in 1994. It is currently operated by our refining segment, includes nine loading lanes and is fully automated and unmanned at night. We have in excess of 1,000,000 barrels of combined refined product storage tank capacity at Tye, Texas Station (a Magellan tie-in location) and our terminals in Abilene and San Angelo.

Table of Contents

*Pipelines.* We own seven product pipelines of approximately 114 miles between our refined product terminals in Abilene and San Angelo, Texas, which includes a line connecting our facility to Dyess Air Force Base. These refined product pipelines are:

eight-inch pipeline from Magellan Pipeline Company, L.P. custody transfer point at Tye Station to the Abilene terminal;

13.5 mile, four-inch pipeline from the Abilene terminal to the Magellan tie-in;

76.5 mile, six-inch pipeline system from the Magellan tie-in to San Angelo; and

three other local product pipelines.

*Supply Agreements.* Substantially all of our petroleum products are purchased from Magellan under two separate supply contracts. Under the terms of the first supply contract, we can purchase up to 20,350 bpd of petroleum products for the Abilene terminal for sales and exchange at Abilene and San Angelo (the Abilene Agreement ). This agreement, which currently runs through December 31, 2009, may be renewed for four additional two-year terms by us. Additionally, we can purchase up to an additional 7,000 bpd of refined products for the Magellan pipeline system in East Houston under a separate contract that expires in 2015. While the primary purpose of this second contract is to supply products at terminals in Aledo and Odessa, Texas, the agreement allows us to redirect products to other terminals along the Magellan pipeline. In 2007, Magellan was the sole supplier of our marketing segment s petroleum products under these two supply agreements. Under the terms of the Abilene Agreement with Magellan, they are not permitted to move additional barrels into the third-party terminals we operate. They do not compete in these locations. We were notified on February 22, 2008, that Magellan s rights and obligations under the Abilene Agreement will be assigned to Northville Product Services, L.P. ( Northville ) effective March 1, 2008. Our consent is required for Magellan to assign one of the agreements integral to the Abilene contract. As of February 29, 2008, we had an agreement in principle with Magellan and Northville to consent to the assignment under certain terms and conditions.

*Customers.* We have various types of customers including major oil companies such as ExxonMobil, independent refiners and marketers such as Murphy Oil, jobbers, distributors, utility and transportation companies, and independent retail fuel operators. In general, marketing customers typically come from within a 100-mile radius of our terminal operations. Our customers include, among others, Flying J, Murphy Oil, ExxonMobil, and Susser Petroleum. None of our customers in the marketing segment accounted for 10% or more of our consolidated or marketing segment net sales in 2007. Two customers accounted for more than 10% of our marketing segment net sales and the top ten customers accounted for just over half of the marketing segment net sales in 2007. Pursuant to an arm s length services agreement, our marketing segment also provides marketing and sales services for customers of the Tyler refinery. In return for these services to customers of the Tyler refinery, the marketing segment receives a service fee based on the number of gallons sold from the refining segment plus a sharing of marketing margin above predetermined thresholds. Net fees received from the refining segment under this arrangement were $14.7 million and $3.4 million in 2007 and 2006, respectively, and were eliminated in consolidation.

*Competition.* Our company-owned refined product terminals compete with other independent terminal operators as well as integrated oil companies on the basis of terminal location, price, versatility and services provided. The costs associated with transporting products from a loading terminal to end users limit the geographic size of the market that can be served economically by any terminal. The two key markets in west Texas that we serve from our company-owned facilities are Abilene and San Angelo, Texas. While we have direct competition from an independent refinery that markets through another terminal in the Abilene market, there are no competitive fuel loading terminals within approximately 90 miles of our San Angelo terminal.

***Retail Segment***

As of December 31, 2007, we operated 497 retail fuel and convenience stores, which are located in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Tennessee and Virginia, primarily under the MAPCO Express®, MAPCO Mart®, East Coast®, Discount Food Martᵗᵐ, Fast Food and Fuelᵗᵐ and Favorite Markets® brands. In July 2006, we purchased 43 stores from Fast Petroleum, Inc. and affiliates that strengthened our presence

**Table of Contents**

in key markets located in southeastern Tennessee and northern Georgia and we also re-imaged all stores purchased from BP Products North America, Inc. ( BP ) in December 2005. In April 2007, we purchased 107 stores from Calfee Company of Dalton, Inc. and affiliates. This purchase further solidified our presence in the southeastern Tennessee and northern Georgia markets. In 2007, we completed three store raze and rebuilds and retrofitted one existing store using our next generation, MAPCO Mart concept. The MAPCO Mart store with GrilleMarx® is designed to offer premium amenities and products, such as a proprietary made-to-order food program with bi-lingual touch-screen order machines, seating, expanded coffee and hot drink bars, an expanded cold and frozen drink area where customers can customize their drink flavors, a walk-in beer cave and an expanded import and micro brew beer section. Following these raze and rebuilds and retrofits which are located in our Nashville market, two new stores were opened in 2007 in Alabama using our MAPCO Mart brand. We plan to continue our raze and rebuild program in these and other of our markets and will utilize the upscale imagery of these next generation stores to continue re-imaging existing locations in 2008.

We believe that we have established strong brand recognition and market presence in the major retail markets in which we operate. Approximately 72% of our stores are concentrated in Tennessee and Alabama. In terms of number of retail fuel and convenience stores, we rank in the top-five in the major markets of Nashville, Chattanooga, Memphis and northern Alabama.

We operate a business