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

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

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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).

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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

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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

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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.

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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.

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.

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 Mart™, Fast Food and Fuel™ and Favorite Markets® brands. In July 2006, we purchased 43 stores from Fast Petroleum, Inc. and affiliates that strengthened our presence

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 model that we believe enables us to generate higher per gallon gas margins than the industry average, as well as drive merchandise sales that are higher than the industry average. Our stores are positioned in high traffic areas, we operate a high concentration of sites in similar geographic regions to promote operational efficiencies and we employ a localized marketing strategy that focuses on the demographics surrounding each store and customizing product mix and promotional strategies to meet the needs of customers in those demographics. Our business model also incorporates a strong focus on controlling operating expenses and loss prevention, which continues to be an important element in the successful development of our retail segment.

Company-Operated Stores. Of our sites, approximately 60% are open 24 hours per day and the remaining sites are open at least 16 hours per day. Our average store size is approximately 2,360 square feet with approximately 69% of our stores being 2,000 or more square feet.

Our retail fuel and convenience stores typically offer tobacco products and immediately consumable items such as beer, non-alcoholic beverages and a large variety of snacks and prepackaged items. A significant number of the sites also offer state sanctioned lottery games, ATM services and money orders. While several of our stores include well recognized national branded quick service food chains such as Subway®, we have recently shifted our focus in food service to providing proprietary, made-to-order food offerings under our GrilleMarx® brand. We have chosen this strategy because we believe it best fits our neighborhood store strategy of offering products that meet the customs and tastes of each community we serve. Our GrilleMarx® program gives us significant flexibility in site selection, the ability to control product consistency and to tailor our food offerings to local tastes. In addition, our proprietary fresh food program allows us a unique product offering without paying royalties typically charged by the branded programs. In 2006, we introduced our own MAPCO® private label products in the majority of our locations for soft drink, sandwich, water and automotive categories which provide points of differentiation and enhanced margins. In 2007, we introduced candy and energy drinks under our MAPCO® private label program. We intend to continue to introduce new private label product offerings using our MAPCO® brand.

All but three of our locations offer both retail fuel and convenience stores. The majority of our locations have four to five multi-pump fuel dispensers with credit card readers. Virtually all of our company-operated locations have a canopy to protect self-service customers from rain and to provide street appeal by creating a modern, well-lit and safe environment. Effective January 1, 2008, we initiated blending of ethanol in our finished gasoline products, allowing customers access to renewable E-10 products.

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Fuel Operations. For 2007, 2006 and 2005, our net fuel sales were 76.8%, 76.3%, and 73.4%, respectively, of total net sales for our retail segment. The following table highlights certain information regarding our fuel operations for these years:

	Year Ended December 31,		
	2007	**2006**	**2005**
Number of stores (end of period)	497	394	349
Average number of stores (during period)	470	369	330
Retail fuel sales (thousands of gallons)	474,154	396,867	341,335
Average retail gallons per average number of stores (thousands of gallons)	1,009	1,075	1,034
Retail fuel margin (cents per gallon)	$ 0.144	$ 0.145	$ 0.165

We currently operate a fleet of delivery trucks that deliver approximately half of the fuel sold at our retail fuel and convenience stores. We purchased approximately 29% of the fuel sold at our retail fuel and convenience stores in 2007 from Valero Marketing and Supply under a contract that extends through the second quarter of 2008. We also purchase fuel under contracts with BP, ExxonMobil, Shell, Conoco, Marathon and Chevron, and purchase the remainder of our fuel from a variety of independent fuel distributors. The price of fuel purchased is generally based on contracted differentials to local and regional price benchmarks. The initial terms of our supply agreements range from one year to 15 years and generally contain minimum monthly or annual purchase requirements. To date, we have met substantially all our purchase commitments under these contracts.

Merchandise Operations. For 2007, 2006 and 2005, our merchandise sales were 23.2%, 23.7%, and 26.6%, respectively, of total net sales for our retail segment. The following table highlights certain information regarding our merchandise operations for 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	**2006**	**2005**
Comparable store merchandise sales change (year over year)	1.1%	2.9%	1.4%
Merchandise margin	31.6%	30.6%	29.8%
Merchandise profit as a percentage of total margin	64.9%	63.0%	60.1%

We purchased approximately 54% of our general merchandise, including most tobacco products and grocery items, for 2007 from a single wholesale grocer, McLane Company, Inc. (McLane), a wholly-owned subsidiary of Berkshire Hathaway. Our contract with McLane expired on December 31, 2007. Beginning December 31, 2007, we changed our grocery supplier to Core-Mark International, Inc. (Core-Mark). We entered into a contract with Core-Mark that expires at the end of 2010, but may be renewed at our option through the end of 2013. Our other major suppliers include Coca-Cola®, Pepsi-Cola® and Frito Lay®.

Technology and Store Automation. We continue to invest in our technological infrastructure to enable us to better address the expectations of our customers and improve our operating efficiencies and inventory management. In 2007, we completed the integration of BP s interface system for customer transactions. We also began implementation on a project for scanning in merchandise as it is received at our company-operated stores. We expect to complete this scanning in project in 2008. In 2006, we completed the implementation of a scan-out management system that integrates with our point-of-sale (POS) systems in all company-operated stores.

In 2007, we selected Fuel Quests Fuel Management System to enhance our management of fuel inventory and fuel purchasing. We anticipate that the implementation of this software will provide efficiencies across the multiple processes we currently use. We expect this implementation to be completed in 2008.

Most of our stores are connected to a high speed data network and provide near real-time information to our supply chain management, inventory management and security systems. We believe that our systems provide many of the most desirable features commercially available today in the information software market, while providing us more rapid access to data, customized reports and greater ease of use. Our information technology systems help us manage our inventory, optimize our marketing strategy and reduce cash and merchandise shortages. Our

information technology systems allow us to improve our profitability and strengthen operating and financial performance in multiple ways, including by:

- tracking sales of complementary products; for example, determining the impact of fuel price movements on in-store sales or tracking the impact of a beer promotion on snack sales;
- pricing fuel at individual stores on a daily basis, taking into account competitors prices, competitors historical behavior, daily changes in cost and the impact of pricing on in-store merchandise sales;
- allowing us to determine on a daily basis negative sales trends; for example, merchandise categories that are below budget or below the prior period s results; and
- integrating our security video with our point of sales transaction log in a searchable database that allows us to search for footage related to specific transactions enabling the identification of potentially fraudulent transactions and providing examples through which to train our employees.

Dealer-Operated Stores. Our retail segment also includes a wholesale fuel distribution network that supplies more than 60 dealer-operated retail locations. In 2007, our dealer net sales were approximately 4.7% of net sales for our retail segment. Our business with dealers include contractual arrangements in which we pay a commission to the dealer based on profits from the fuel sales, contractual arrangements in which we supply fuel and invoice the dealer for the cost of fuel plus an agreed upon margin and non-contractual arrangements in which dealers order fuel from us at their discretion.

Competition. The retail fuel and convenience store business is highly competitive. We compete on a store-by-store basis with other independent convenience store chains, independent owner-operators, major petroleum companies, supermarkets, drug stores, discount stores, club stores, mass merchants, fast food operations and other retail outlets. Major competitive factors affecting us include location, ease of access, pricing, timely deliveries, product and service selections, customer service, fuel brands, store appearance, cleanliness and safety. We believe we are able to effectively compete in the markets in which we operate because our market concentration in most of our markets allows us to gain better vendor support. Our retail segment strategy continues to center on operating a high concentration of sites in a similar geographic region to promote operational efficiencies. In addition, we use proprietary information technology that allows us to competitively manage our fuel sales and margin.

Equity Investment

We also own a 34.6% minority equity interest in Lion Oil Company (Lion Oil), 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, three crude oil pipelines and refined product terminals in Memphis and Nashville, Tennessee. The refinery is located in El Dorado, Arkansas. The El Dorado refinery has the ability to produce and sell all consumer grades of gasoline, distillates, propanes, solvents, high sulfur diesel, low sulfur diesel, dyed low sulfur diesel, asphalt and protective coatings, specialty asphalt products and liquefied petroleum gas.

Governmental Regulation and Environmental Matters

We are subject to various federal, state and local environmental laws. These laws raise potential exposure to future claims and lawsuits involving environmental matters which could include soil and water contamination, air pollution, personal injury and property damage allegedly caused by substances which we manufactured, handled, used, released or disposed. While it is often extremely difficult to reasonably quantify future environmental-related expenditures, we anticipate that continuing capital investments will be required over the next several years to comply with existing

regulations.

Based upon environmental evaluations performed internally and by third parties subsequent to our purchase of the Tyler refinery, we recorded a liability of approximately $8.2 million as of December 31, 2007 relative to the probable estimated costs of remediating or otherwise addressing certain environmental issues of a non-capital nature which were assumed in connection with the acquisition as discussed in Notes 3 and 13 to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, in this Annual Report on

Form 10-K. This liability includes estimated costs for on-going investigation and remediation efforts for known contaminations of soil and groundwater which were already being performed by the former owner, as well as estimated costs for additional issues which have been identified subsequent to the purchase. Approximately $1.6 million of the liability is expected to be expended by the end of 2008 with the remaining balance of $6.6 million expendable by 2022.

In October 2007, the Texas Commission on Environmental Quality (TCEQ) approved an Agreed Order in which the Tyler refinery resolved alleged violations of air rules dating back to the acquisition of the refinery. The Agreed Order required the refinery to pay a penalty and fund a Supplemental Environmental Project for which we had previously reserved adequate amounts. We are in discussions with the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Justice (DOJ), concerning some other enforcement actions; the outcome of which we believe will not result in a material adverse effect on our business, financial condition or results of operations. We have not been named as defendant in any environmental, health or safety litigation.

The Federal Clean Air Act (CAA) authorizes the EPA to require modifications in the formulation of the refined transportation fuel products manufactured in order to limit the emissions associated with their final use. In December 1999, the EPA promulgated national regulations limiting the amount of sulfur to be allowed in gasoline at future dates. The EPA believes such limits are necessary to protect new automobile emission control systems that may be inhibited by sulfur in the fuel. The new regulations required the phase-in of gasoline sulfur standards beginning in 2004, with the final reduction to the sulfur content of gasoline to an annual average level of 30 parts-per-million (ppm), and a per-gallon maximum of 80 ppm to be completed by January 1, 2006. The regulation also included special provisions for small refiners or those receiving a waiver. We applied for a waiver from the EPA postponing requirements for the lowest gasoline sulfur standards, which was granted in the second quarter of 2005.

Contemporaneous with our refinery purchase, we became a party to a waiver and Compliance Plan with the EPA that extended the implementation deadline until December 2007 or May 2008, depending on which capital investment option we chose. In return for the extension, we agreed to produce 95% of the diesel fuel at the refinery with a sulfur content of 15 ppm or less by June 1, 2006. In order to achieve this goal, we needed to complete the modification and expansion of an existing diesel hydrotreater. Due to construction delays which were the result of the impact of Hurricanes Katrina and Rita on the availability of construction resources, we requested, and received, a modification to our Compliance Plan which, among other things, granted us an additional three months in which to complete the project. This project was completed in the third quarter of 2006.

Regulations promulgated by TCEQ require the use of only Low Emission Diesel, (LED), in counties east of Interstate 35 beginning in October 2005. We received approval to meet these requirements through the end of 2007 by selling diesel that meets the criteria in an Alternate Emissions Reduction Plan on file with the TCEQ and through the use of approved additives thereafter.

The EPA has issued final rules for gasoline formulation that will require further reductions in benzene content by 2011. We are in the process of identifying and evaluating options for complying with this requirement. The Energy Policy Act of 2005 requires increasing amounts of renewable fuel be incorporated into the gasoline pool through 2012. Under final rules implementing this Act (the Renewable Fuel Standard), the Tyler refinery is classified as a small refinery exempt from renewable fuel standards through 2010. Although temporarily exempt from this rule, the Tyler refinery began supplying an E-10 gasoline-ethanol blend effective January 1, 2008. The Energy Independence and Security Act of 2007 requires increasing amounts of renewable fuel compared with the Energy Policy Act of 2005. The EPA has not yet promulgated implementing rules for the 2007 Act so it is not yet possible to determine what the Tyler compliance requirement will be.

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), also known as Superfund, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly

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caused by hazardous substances or other pollutants released into the environment. Analogous state laws impose similar responsibilities and liabilities on responsible parties. Waste is generated in the course of the refinery s ordinary operations, some of which falls within the statutory definition of a hazardous substance, and some of which may have been disposed of at sites that may require cleanup under Superfund. At this time, we have not been named a party at any Superfund sites and under the terms of the purchase agreement, we did not assume any liability for wastes disposed of prior to our ownership of the refinery.

During 2007, the Department of Homeland Security (DHS) promulgated Chemical Facility Anti-Terrorism Standards to regulate the security of high risk chemical facilities. In compliance with this rule, we submitted certain required information concerning our Tyler refinery and Abilene and San Angelo terminals to the DHS. If the DHS determines that any of these facilities represents a high risk facility, we will be required to prepare a Security Vulnerability Analysis and possibly develop and implement Site Security Plans required by the standard. We do not believe the outcome will have a material effect on our business.

In June 2007, the U.S. Department of Labor s Occupational Safety & Health Administration (OSHA) announced it was implementing a National Emphasis Program addressing workplace hazards at petroleum refineries. Under this program, OSHA expects to conduct inspections of process safety management programs over the next two years at approximately 80 refineries nationwide that are located in the states that do not have their own OSHA program. Texas does not have a state OSHA program. On February 19, 2008, OSHA initiated an inspection at our Tyler, Texas refinery.

Our business is also subject to other laws and regulations including, but not limited to, employment laws and regulations, regulations governing the sale of alcohol and tobacco, minimum wage requirements, working condition requirements, public accessibility requirements, citizenship requirements, gaming laws and other laws and regulations. A violation or change of these laws could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of December 31, 2007, we had 3,708 employees, of which 271 were employed in our refining segment, 12 were employed in our marketing segment and 3,425 were employed either full or part-time in our retail segment. As of December 31, 2007, 149 operations and maintenance hourly employees and 27 truck drivers at the refinery were represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and its Local 202 and were covered by collective bargaining agreements which run through January 2009. None of our employees in our marketing or retail segments or in our corporate office are represented by a union. We consider our relations with our employees to be satisfactory.

Trade Names, Service Marks and Trademarks

We regard our intellectual property as being an important factor in the marketing of goods and services in our retail segment. We own, have registered or applied for registration of a variety of trade names, service marks and trademarks for use in our business. We own the following trademark registrations issued by the United States Patent and Trademark Office: MAPCO®, MAPCO MART®, MAPCO EXPRESS & Design®, EAST COAST®, GRILLE MARX® CAFÉ EXPRESS FINEST COFFEE IN TOWN MAPCO & Design®, GUARANTEED RIGHT! MAPCO EXPRESS & Design®, FAST FOOD AND FUEL™, FLEET ADVANTAGE® and DELTA EXPRESS®. While we do not already have and have not applied for a federally registered trademark for DISCOUNT FOOD MART™, we do claim common law trademark rights in this name. Our right to use the MAPCO name is limited to the retail fuel and convenience store industry. We are not otherwise aware of any facts which would negatively impact our continuing use of any of our trade names, service marks or trademarks.

Available Information

Our internet website address is http://www.DelekUS.com. Information contained on our website is not part of this Annual Report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our internet website (in the Investor Relations section), free of charge, as soon as reasonably practicable after we

file or furnish such material to the SEC. We also post our corporate governance guidelines, code of business conduct and ethics and the charters of our board of director s committees in the same website location. Our governance documents are available in print to any stockholder that makes a written request to Kent Thomas, Secretary, Delek US Holdings, Inc., 7102 Commerce Way, Brentwood, TN 37027. In accordance with Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, we submitted our chief executive officer s certification to the New York Stock Exchange in 2007. Exhibits 31.1 and 31.2 of this Annual Report on Form 10-K contain certifications of our chief executive officer and chief financial officer regarding the quality of our public disclosures under Section 302 of the Sarbanes-Oxley Act of 2002.

ITEM 1A. *RISK FACTORS*

We are subject to numerous known and unknown risks, many of which are presented below and elsewhere in this Annual Report on Form 10-K. Any of the risk factors described below or additional risks and uncertainties not presently known to us, or that we currently deem immaterial, could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Industry

We operate an independent refinery in Tyler, Texas and own a non-controlling interest in an unaffiliated corporation that owns another independent refinery in El Dorado, Arkansas which may not be able to withstand volatile market conditions, compete on the basis of price or obtain sufficient quantities of crude oil in times of shortage to the same extent as integrated, multinational oil companies.

We compete with a broad range of companies in our refining and petroleum product marketing operations. Many of these competitors are integrated, multinational oil companies that are substantially larger than we are. Because of their diversity, integration of operations, larger capitalization, larger and more complex refineries and greater resources, these companies may be better able to withstand volatile market conditions relating to crude oil and refined product pricing, to compete on the basis of price and to obtain crude oil in times of shortage.

We are subject to loss of market share or pressure to reduce prices in order to compete effectively with a changing group of competitors in a fragmented retail industry.

The industry in which we operate our retail fuel and convenience stores is highly competitive and marked by ease of entry and constant change in the number and type of retailers offering the products and services found in our stores. We compete with other convenience store chains, gas stations, supermarkets, drug stores, discount stores, club stores, mass merchants, fast food operations and other retail outlets. In some of our markets, our competitors have been in existence longer and have greater financial, marketing and other resources than we do. As a result, our competitors may be able to respond better to changes in the economy and new opportunities within the industry.

In recent years, several non-traditional retailers, such as supermarkets, club stores and mass merchants, have affected the convenience store industry by entering the retail fuel business. These non-traditional gasoline retailers have obtained a significant share of the motor fuels market and we expect their market share to grow. Because of their diversity, integration of operations, experienced management and greater resources, these companies may be better able to withstand volatile market conditions or levels of low or no profitability in the retail segment. In addition, these retailers may use promotional pricing or discounts, both at the pump and in the store, to encourage in-store merchandise sales. These activities by our competitors could pressure us to offer similar discounts, adversely affecting our profit margins. Additionally, the loss of market share by our retail fuel and convenience stores to these and other retailers relating to either gasoline or merchandise could have a material adverse effect on our business, financial condition and results of operations.

Independent owner-operators can operate stores with lower overhead costs than ours. Should significant numbers of independent owner-operators enter our market areas, retail prices in some of our categories may be negatively affected, as a result of which our profit margins may decline at affected stores.

Our stores compete, in large part, based on their ability to offer convenience to customers. Consequently, changes in traffic patterns and the type, number and location of competing stores could result in the loss of

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customers and reduced sales and profitability at affected stores. Other major competitive factors include ease of access, pricing, timely deliveries, product and service selections, customer service, fuel brands, store appearance, cleanliness and safety.

We operate in a highly regulated industry and increased costs of compliance with, or liability for violation of, existing or future laws, regulations and other requirements could significantly increase our costs of doing business, thereby adversely affecting our profitability.

Our industry is subject to extensive laws, regulations and other requirements including, but not limited to, those relating to the environment, employment, labor, immigration, minimum wages and overtime pay, health benefits, working conditions, public accessibility, the sale of alcohol and tobacco and other requirements. A violation of any of these requirements could have a material adverse effect on our business, financial condition and results of operations.

Under various federal, state and local environmental requirements, as the owner or operator of our locations, we may be liable for the costs of removal or remediation of contamination at our existing or former locations, whether we knew of, or were responsible for, the presence of such contamination. We have incurred such liability in the past and several of our current and former locations are the subject of ongoing remediation projects. The failure to timely report and properly remediate contamination may subject us to liability to third parties and may adversely affect our ability to sell or rent our property or to borrow money using our property as collateral. Additionally, persons who arrange for the disposal or treatment of hazardous substances also may be liable for the costs of removal or remediation of these substances at sites where they are located, regardless of whether the site is owned or operated by that person. We typically arrange for the treatment or disposal of hazardous substances in our refining operations. We do not typically do so in our retail operations, but we may nonetheless be deemed to have arranged for the disposal or treatment of hazardous substances. Therefore, we may be liable for removal or remediation costs, as well as other related costs, including fines, penalties and damages resulting from injuries to persons, property and natural resources.

In the future, we may incur substantial expenditures for investigation or remediation of contamination that has not been discovered at our current or former locations or locations that we may acquire. In addition, new legal requirements, new interpretations of existing legal requirements, increased legislative activity and governmental enforcement and other developments could require us to make additional unforeseen expenditures. Companies in the petroleum industry, such as us, are often the target of activist and regulatory activity regarding pricing, safety, environmental compliance and other business practices which could result in price controls, fines, increased taxes or other actions affecting the conduct of our business. For example, consumer activists are lobbying various authorities to enact laws and regulations mandating the use of temperature compensation devices for fuel dispensed at our retail stores. In addition, the United States Supreme Court decision in Massachusetts v. Environmental Protection Agency, 549 U.S. No. 05-1120, slip op. at 1 (U.S. April 2, 2007) may prompt further legislative and regulatory activity in the realm of greenhouse gas emissions and climate change. Environmental regulation is becoming more stringent and new environmental laws and regulations are continuously being enacted or proposed. While it is impractical to predict the impact that potential regulatory and activist activity may have, such future activity may result in increased costs to operate and maintain our facilities as well as increased capital outlays to improve our facilities. Such future activity could also adversely affect our ability to expand production, result in damaging publicity about us, or reduce demand for our products. Our need to incur costs associated with complying with any resulting new legal or regulatory requirements that are substantial and not adequately provided for, could have a material adverse effect on our business, financial condition and results of operations.

Our refining margins may decline as a result of increases in the prices of crude oil and other feedstocks.

Our earnings, cash flow and profitability from our refining operations depend on the margin above fixed and variable expenses (including the cost of refinery feedstocks, such as crude oil) at which we are able to sell refined petroleum products. Refining margins historically have been and are likely to continue to be volatile, as a result of numerous factors beyond our control, including the supply of and demand for crude oil, other feedstocks, gasoline and other refined petroleum products. Such supply and demand are affected by, among other things:

- changes in global and local economic conditions;
- domestic and foreign demand for fuel products;
- refined product inventory levels;
- worldwide political conditions, particularly in significant oil producing regions such as the Middle East, Western Coastal Africa, the former Soviet Union, and South America;
- the level of foreign and domestic production of crude oil and refined petroleum products;
- the level of crude oil, other feedstocks and refined petroleum products imported into the United States;
- utilization rates of refineries in the United States;
- development and marketing of alternative and competing fuels such as ethanol;
- events that cause disruptions in our distribution channels;
- local factors, including market conditions, adverse weather conditions and the level of operations of other refineries and pipelines in our markets; and
- U.S. government regulations.

Our gross profit may decline as a result of increases in the prices of crude oil, other feedstocks and refined petroleum products.

Significant increases and volatility in costs of crude oil, other feedstocks and refined petroleum products could cause our profits to decline. If the prices for which we can sell our refined products fail to keep pace with rising prices of crude oil and other feedstocks, our results of operations will be negatively impacted. This is especially true for non-transportation fuel products such as asphalt, butane, coke, propane and slurry whose prices do not typically correlate to fluctuations in the price of crude oil.

Increases in the price of crude oil and other feedstocks could also result in significant increases in the retail price of transportation fuel products, higher credit card expenses on retail fuel sales and in lower retail fuel gross margin per gallon. Increases in the retail price of transportation fuel products could also diminish consumer demand for fuel and lead to lower retail fuel sales. In addition, the volatility in costs of fuel, principally natural gas, and other utility services, principally electricity, used by our Tyler refinery and other operations affect our operating costs.

Feedstock, fuel and utility prices have been, and will continue to be, affected by factors that are beyond our control, such as supply and demand and regulation in both local and regional markets. This volatility makes it extremely

difficult to predict the impact future wholesale cost fluctuations will have on our business, financial condition and results of operations. These factors could materially impact our refining gross profits, fuel gallon volume, fuel gross profit and overall customer traffic, which in turn would adversely impact our merchandise sales.

If the market value of our inventory declines to an amount less than our LIFO basis, we would record a write-down of inventory and a non-cash charge to cost of sales, which would adversely affect our earnings.

The nature of our business requires us to maintain substantial quantities of crude oil, refined petroleum product and blendstock inventories. Because crude oil and refined petroleum products are commodities, we have no control over the changing market value of these inventories. Because our refining inventory is valued at the lower of cost or market value under the last-in, first-out (LIFO) inventory valuation methodology, we would record a write-down

of inventory and a non-cash charge to cost of sales if the market value of our inventory were to decline to an amount less than our LIFO basis.

Anti-smoking measures, increases in tobacco taxes and wholesale cost increases of tobacco products could reduce our tobacco product sales.

Sales of tobacco products accounted for approximately 8%, 9% and 10% of total net sales of our retail segment for the years ended December 31, 2007, 2006 and 2005, respectively. Significant increases in wholesale cigarette costs, increased taxes on tobacco products (such as the July 2007, $0.10 per pack tax increase in the state of Tennessee), declines in the percentage of smokers in the general population, additional legal restrictions on smoking in public or private establishments, future legislation and national and local campaigns to discourage smoking in the United States have had an adverse effect on the demand for tobacco products and could have a material adverse effect on our business, financial condition and results of operations.

Competitive pressures in our markets can make it difficult to pass any additional cost increases associated with these products to our customers. This could materially and adversely affect our retail price of cigarettes, cigarette unit volume and net sales, merchandise gross profit and overall customer traffic. Because we derive a significant percentage of our net sales from tobacco products, a decline in net sales from the sale of tobacco products or decrease in margins on our tobacco product sales could have a material adverse effect on our business, financial condition and results of operations.

A terrorist attack on our assets, or threats of war or actual war, may hinder or prevent us from conducting our business.

Terrorist attacks in the United States and the war with Iraq, as well as events occurring in response or similar to or in connection with them, may harm our business. Energy-related assets (which could include refineries, pipelines and terminals such as ours) may be at greater risk of future terrorist attacks than other possible targets in the United States. In addition, the State of Israel, where our majority stockholder, Delek Group Ltd., is based, has suffered armed conflicts and political instability in recent years. We may be more susceptible to terrorist attack as a result of our connection to an Israeli owner. On the date of this report, three of our directors reside in Israel. Our business may be harmed if armed conflicts or political instability in Israel cause one or more of our directors to become unavailable to serve on our board of directors.

A direct attack on our assets or the assets of others used by us could have a material adverse effect on our business, financial condition and results of operations. In addition, any terrorist attack could have an adverse impact on energy prices, including prices for our crude oil, other feedstocks and refined petroleum products, and an adverse impact on the margins from our refining and petroleum product marketing operations. In addition, disruption or significant increases in energy prices could result in government-imposed price controls.

Increased consumption of renewable fuels could lead to a decrease in fuel prices and/or a reduction in demand for refined fuels.

Regulatory initiatives have caused an increase in the consumption of renewable fuels such as ethanol. In the future, renewable fuels may continue to be blended with, or may replace, refined fuels. Such increased use of renewable fuels may result in an increase in fuel supply and corresponding decrease in fuel prices. Increased use of renewable fuels may also result in a decrease in demand for refined fuels. A significant decrease in fuel prices or refined fuel demand could have an adverse impact on our financial results.

Risks Relating to Our Business

Due to the concentration of our stores in the southeastern United States, an economic downturn in that region could cause our sales and the value of our assets to decline.

Substantially all of our stores are located in the southeastern United States. As a result, our results of operations are subject to general economic conditions in that region. An economic downturn in the Southeast could cause our

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sales and the value of our assets to decline and have a material adverse effect on our business, financial condition and results of operations.

We may not be able to successfully execute our strategy of growth through acquisitions.

A significant part of our growth strategy is to acquire assets such as refineries, pipelines, terminals, and retail fuel and convenience stores that complement our existing sites or broaden our geographic presence. If attractive opportunities arise, we may also acquire assets in new lines of business that are complementary to our existing businesses. Through nine major transactions and several smaller transactions spanning from our inception in 2001 through December 31, 2007, we acquired our refinery and refined products terminals in Tyler and a minority equity interest in the unaffiliated corporation that owns the El Dorado refinery, we acquired approximately 500 retail fuel and convenience stores and we developed our wholesale fuel business. We expect to continue to acquire retail fuel and convenience stores, refinery assets and product terminals and pipelines as a major element of our growth strategy, however:

- we may not be able to identify suitable acquisition candidates or acquire additional assets on favorable terms;
- we usually compete with others to acquire assets, which competition may increase, and, any level of competition could result in decreased availability or increased prices for acquisition candidates;
- we may experience difficulty in anticipating the timing and availability of acquisition candidates;
- since the convenience store industry is dominated by small, independent operators that own fewer than ten stores, we will likely need to complete numerous small acquisitions, rather than a few major acquisitions, to substantially increase our number of retail fuel and convenience stores;
- the need to complete numerous acquisitions will require significant amounts of our management s time;
- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential acquisitions; and
- as a public company, we are subject to reporting obligations, internal controls and other accounting requirements with respect to any business we acquire, which may prevent or negatively affect the valuation of some acquisitions we might otherwise deem favorable or increase our acquisition costs.

Acquisitions involve risks that could cause our actual growth or operating results to differ adversely compared with our expectations.

Due to our emphasis on growth through acquisitions, we are particularly susceptible to transactional risks. For example:

- during the acquisition process, we may fail or be unable to discover some of the liabilities of companies or businesses that we acquire;
- we may assume contracts or other obligations in connection with particular acquisitions on terms that are less favorable or desirable than the terms that we would expect to obtain if we negotiated the contracts or other obligations directly;
- we may fail to successfully integrate or manage acquired refining, pipeline and terminal assets, retail fuel and convenience stores, or other assets;

acquired retail fuel and convenience stores, refineries, pipelines, terminals or other assets may not perform as we expect or we may not be able to obtain the cost savings and financial improvements we anticipate;

we may fail to grow our existing systems, financial controls, information systems, management resources and human resources in a manner that effectively supports our growth; and

to the extent that we acquire assets in complementary new lines of business, we may become subject to additional regulatory requirements and additional risks that are characteristic or typical of these new lines of business.

We are relatively new to the refining business and may enter new lines of business in which we are inexperienced.

In April 2005, we acquired the Tyler refinery, and our pipeline and other refining, product terminal and crude oil pipeline assets located in Tyler, Texas, and in August 2007, we acquired a non-controlling interest in an unaffiliated corporation that owns a refinery located in El Dorado, Arkansas. Prior to the acquisition of the Tyler refinery in 2005, we were not involved in refining operations. As a result of our entry into the refining business, we may not be able to successfully enter into advantageous business relationships with other refinery, pipeline or terminal operators, or wholesale marketers comparable to those which more established refiners may be able to enter. Therefore, we may be unable to take full advantage of business opportunities for the refining business and we may encounter difficulties in meeting our expectations or the expectations of investors for the operating results of the refining business.

We continually evaluate strategic opportunities for growth, which may include opportunities in new lines of business, in which we currently have no operations and lack experience. Our ability to succeed in any new line of business will depend upon our ability to address and overcome limitations in our experience.

We may incur significant costs and liabilities with respect to investigation and remediation of existing environmental conditions at our Tyler refinery.

Prior to our purchase of the Tyler refinery and pipeline, the previous owner had been engaged for many years in the investigation and remediation of liquid hydrocarbons which contaminated soil and groundwater at the purchased facilities. Upon purchase of the facilities, we became responsible and liable for certain costs associated with the continued investigation and remediation of known and unknown impacted areas at the refinery. In the future, it may be necessary to conduct further assessments and remediation efforts at the refinery and pipeline locations. In addition, we have identified and self-reported certain other environmental matters subsequent to our purchase of the refinery. Based upon environmental evaluations performed internally and by third parties subsequent to our purchase of the Tyler refinery, we recorded an environmental liability of approximately $8.2 million as of December 31, 2007 for the estimated costs of environmental remediation for our refinery and crude oil pipeline. We expect remediation of soil and groundwater at the refinery to continue for the foreseeable future. The need to make future expenditures for these purposes that exceed the amounts we estimate and accrue for could have a material adverse effect on our business, financial condition and results of operations.

We may incur significant costs and liabilities in connection with site contamination, new environmental regulations and prior non-compliance with air emission regulations.

In the future, we may incur substantial expenditures for investigation or remediation of contamination that has not been discovered at our current or former locations or locations that we may acquire. In addition, new legal requirements, new interpretations of existing legal requirements, increased legislative activity and governmental enforcement and other developments could require us to make additional unforeseen expenditures. We anticipate that compliance with new regulations, including lowering the permitted level of sulfur in gasoline, will require us to spend approximately $42.0 million in capital costs in 2008. In October 2007, the TCEQ approved an Agreed Order in which the Tyler refinery resolved alleged violations of air rules dating back to the acquisition of the refinery. The Agreed

Order required the refinery to pay a penalty and fund a Supplemental Environmental Project for which we had previously reserved adequate amounts. We are also in discussions with the EPA and the DOJ, concerning some other enforcement actions; the outcome of which we believe will not result in a material adverse effect on our business, financial condition or results of operations. However, a settlement with the EPA could result in additional capital expenditures and potential penalties that could have a material adverse effect on our business, financial condition and results of operations.

We could incur substantial costs or disruptions in our business if we cannot obtain or maintain necessary permits and authorizations or otherwise comply with health, safety, environmental and other laws and regulations.

Our operations require numerous permits and authorizations under various laws and regulations. These authorizations and permits are subject to revocation, renewal or modification and can require operational changes to limit impacts or potential impacts on the environment and/or health and safety. A violation of authorization or permit conditions or other legal or regulatory requirements could result in substantial fines, criminal sanctions, permit revocations, injunctions, and/or facility shutdowns. In addition, major modifications of our operations could require modifications to our existing permits or upgrades to our existing pollution control equipment. Any or all of these matters could have a negative effect on our business, results of operations and cash flows.

A disruption in the supply or an increase in the price of light sweet crude oil would significantly affect the productivity and profitability of our Tyler refinery.

Our Tyler refinery processes primarily light sweet crude oils as opposed to light to medium sour crude oils. Due to increasing demand for lower sulfur fuels, light sweet crude oils are more costly and less readily available to us than heavy sour crude oils. An inability to obtain an adequate supply of light sweet crude oils to operate our Tyler refinery at full capacity or an increase in the cost of light sweet crude oils could have a material adverse effect on our business, financial condition and results of operations.

The dangers inherent in our refining operations could cause disruptions and expose us to potentially significant costs and liabilities.

Our refining operations are subject to significant hazards and risks inherent in refining operations and in transporting and storing crude oil, intermediate and refined petroleum products. These hazards and risks include, but are not limited to, natural or weather-related disasters, fires, explosions, pipeline ruptures and spills, third party interference and mechanical failure of equipment at our or third-party facilities, and other events beyond our control. The occurrence of any of these events could result in production and distribution difficulties and disruptions, environmental pollution, personal injury or death and other damage to our properties and the properties of others. In addition, the Tyler refinery is located in a populated area. Any release of hazardous material or catastrophic event could affect our employees and contractors at the refinery as well as persons outside the refinery grounds. In the event that personal injuries or deaths result from such events, we would likely incur substantial legal costs and liabilities. The extent of these costs and liabilities could exceed the limits of our available insurance. As a result, any such event could have a material adverse effect on our business, results of operations and cash flows.

We are particularly vulnerable to disruptions to our refining interests, because our refining interests are concentrated in two facilities.

Our refining interests consist of the Tyler refinery and our minority equity interest in the unaffiliated corporation that owns the El Dorado refinery (collectively our refining interests .) Because our refining interests are concentrated in only two facilities, significant disruptions at either facility, could have a material adverse effect on our business, financial condition or results of operations.

Interruptions in the supply and delivery of crude oil may affect our refining interests and limitations in systems for the delivery of crude oil may inhibit the growth of our refining interests.

Our refining interests receive substantially all of their crude oil from third parties. We could experience an interruption of supply and delivery, or an increased cost of receiving crude oil, if the ability of these third parties to transport crude oil is disrupted because of accidents, governmental regulation, terrorism, other third-party action or

other events beyond our control. The unavailability for our use for a prolonged period of time of any system of delivery of crude oil could have a material adverse effect on our business, financial condition or results of operations.

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Moreover, limitations in deliver capacity may not allow our refining interests to draw sufficient crude oil to support increases in refining output. In order to materially increase refining output, existing crude delivery systems may require upgrades or supplementation, which may require substantial additional capital expenditures.

Our Tyler refinery has only limited access to an outbound pipeline, which we do not own, for distribution of our refined petroleum products.

For 2007, approximately 93.8% of our refinery sales volume in Tyler was completed through a rack system located at the refinery. Unlike other refiners, we do not own, and have limited access to, an outbound pipeline for distribution of our refinery products to our Tyler customers. Our lack of access to an outbound pipeline may undermine our ability to attract new customers for our refined petroleum products or increase sales of our refinery products.

From time to time, our cash needs may exceed our internally generated cash flow, and our business could be materially and adversely affected if we are not able to obtain the necessary funds from financing activities.

We have significant short-term cash needs to satisfy working capital requirements such as crude oil purchases which fluctuate with the pricing and sourcing of crude oil. We rely in part on our ability to borrow to collateralize or purchase crude oil for our Tyler refinery. If the price of crude oil increases significantly, we may not have sufficient borrowing capacity, and may not be able to sufficiently increase borrowing capacity, under our existing credit facilities to purchase enough crude oil to operate the Tyler refinery at full capacity. Our failure to operate the Tyler refinery at full capacity could have a material adverse effect on our business, financial condition and results of operations. We also have significant long-term needs for cash, including those to support our expansion and upgrade plans, as well as for regulatory compliance.

If credit markets tighten, it may become more difficult to obtain cash from third party sources. If we cannot generate cash flow or otherwise secure sufficient liquidity to support our short-term and long-term capital requirements, we may not be able to comply with regulatory deadlines or pursue our business strategies, in which case our operations may not perform as well as we currently expect.

Changes in our credit profile could affect our relationships with our suppliers, which could have a material adverse effect on our liquidity and our ability to operate the Tyler refinery at full capacity.

Changes in our credit profile could affect the way crude oil suppliers view our ability to make payments. As a result, suppliers could shorten the payment terms of their invoices with us or require us to provide significant collateral to them that we do not currently provide. Due to the large dollar amounts and volume of our crude oil and other feedstock purchases, any imposition by our suppliers of more burdensome payment terms on us may have a material adverse effect on our liquidity and our ability to make payments to our suppliers. This in turn could cause us to be unable to operate the Tyler refinery at full capacity. A failure to operate the Tyler refinery at full capacity could adversely affect our profitability and cash flows.

An interruption or termination of supply and delivery of refined products to our wholesale business could result in a decline in our sales and earnings.

Our marketing segment sells refined products produced by refineries owned by third parties. In 2007, Magellan was the sole supplier to our marketing segment. We could experience an interruption or termination of supply or delivery of refined products if these refineries or Magellan partially or completely ceased operations, temporarily or permanently. The ability of these refineries and Magellan to supply refined products to us could be disrupted by anticipated events such as scheduled upgrades or maintenance, as well as events beyond their control, such as unscheduled maintenance, fires, floods, storms, explosions, power outages, accidents, acts of terrorism or other

catastrophic events, labor difficulties and work stoppages, governmental or private party litigation, or legislation or regulation that adversely impacts refinery operations. In addition, any reduction in capacity of other pipelines that connect with Magellan s pipelines or our pipelines due to testing, line repair, reduced operating pressures, or other

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causes could result in reduced volumes of refined product supplied to our marketing business. A reduction in the volume of refined products supplied to our marketing segment could adversely affect our sales and earnings.

An increase in competition in the market in which we sell our refined products could lower prices and adversely affect our sales and profitability.

Our Tyler refinery is the only supplier of a full range of refined petroleum products within a radius of approximately 115 miles of its location and there are no competitive fuel loading terminals within approximately 90 miles of our San Angelo terminal. If a refined petroleum products delivery pipeline is built in or around the Tyler, Texas area, or a competing terminal is built closer to the San Angelo area, we could lose our niche market advantage, which could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to negotiate market price risk protection in contracts with unaffiliated suppliers of refined products.

In 2007, we obtained 63.5% of our supply of refined products for our marketing segment under contracts that contain provisions that mitigate the market price risk inherent in the purchase and sale of refined products. We cannot assure you that we will be able to negotiate similar market price protections in other contracts that we enter into for the supply of refined products or ethanol. To the extent that we purchase inventory at prices that do not compare favorably to the prices at which we are able to sell refined products, our sales and margins may be adversely affected.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

We have a significant amount of debt. As of December 31, 2007, we had total debt, including current maturities, of $355.2 million. In addition to our outstanding debt, as of December 31, 2007, our borrowing availability under our various credit facilities was $189.6 million.

Our significant level of debt could have important consequences for us. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to service our debt and lease obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a disadvantage relative to our competitors that have less indebtedness or better access to capital by, for example, limiting our ability to enter into new markets, renovate our stores or pursue acquisitions or other business opportunities;
- limit our ability to borrow additional funds in the future; and
- increase the interest cost of our borrowed funds.

In addition, a substantial portion of our debt has a variable rate of interest, which increases our vulnerability to interest rate fluctuations.

If we are unable to meet our debt (principal and interest) and lease obligations, we could be forced to restructure or refinance our obligations, seek additional equity financing or sell assets, which we may not be able to do on satisfactory terms or at all. Our default on any of those obligations could have a material adverse effect on our business, financial condition and results of operations. In addition, if new debt is added to our current debt levels, the related risks that we now face would intensify.

Our debt agreements contain operating and financial restrictions that might constrain our business and financing activities.

The operating and financial restrictions and covenants in our credit facilities and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, to varying degrees our credit facilities restrict our ability to:

- declare dividends and redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans and investments;
- incur additional indebtedness or amend our debt and other material agreements;
- make capital expenditures;
- engage in mergers, acquisitions and asset sales; and
- enter into some intercompany arrangements and make some intercompany payments, which in some instances could restrict our ability to use the assets, cash flow or earnings of one segment to support the other segment.

Other restrictive covenants require that we meet fixed charge coverage, interest charge coverage and leverage tests as described in the credit facility agreements. Our ability to comply with the covenants and restrictions contained in our debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants and restrictions may be impaired. If we breach any of the restrictions or covenants in our debt agreements, a significant portion of our indebtedness may become immediately due and payable, and our lenders commitments to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these immediate payments. In addition, our obligations under our credit facilities are secured by substantially all of our assets. If we are unable to repay our indebtedness under our credit facilities when due, the lenders could seek to foreclose on the assets or we may be required to contribute additional capital to our subsidiaries. Any of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

Compliance with and changes in tax laws could adversely affect our performance.

We are subject to extensive tax liabilities, including federal, state, and foreign income taxes and transactional taxes such as excise, sales/use, payroll, franchise, withholding, and ad valorem taxes. New tax laws and regulations and changes in existing tax laws and regulations are continuously being enacted or proposed that could result in increased expenditures for tax liabilities in the future. Certain of these liabilities are subject to periodic audits by the respective taxing authority which could increase our tax liabilities. Subsequent changes to our tax liabilities as a result of these audits may also subject us to interest and penalties.

We may seek to grow by opening new retail fuel and convenience stores in new geographic areas.

Since our inception, we have grown primarily by acquiring retail fuel and convenience stores in the southeastern United States. We may seek to grow by selectively pursuing acquisitions or by opening new retail fuel and convenience stores in states adjacent to those in which we currently operate, or in which we currently have a relatively small number of stores. This growth strategy would present numerous operational and competitive challenges to our

senior management and employees and would place significant pressure on our operating systems. In addition, we cannot assure you that consumers located in the regions in which we may expand our retail fuel and convenience store operations would be as receptive to our retail fuel and convenience stores as consumers in our existing markets. The achievement of our expansion plans will depend in part upon our ability to:

- select, and compete successfully in, new markets;
- obtain suitable sites at acceptable costs;
- realize an acceptable return on the cost of capital invested in new facilities;

- hire, train, and retain qualified personnel;
- integrate new retail fuel and convenience stores into our existing distribution, inventory control, and information systems;
- expand relationships with our suppliers or develop relationships with new suppliers; and
- secure adequate financing, to the extent required.

We cannot assure you that we will achieve our expansion goals, manage our growth effectively, or operate our existing and new retail fuel and convenience stores profitability. The failure to achieve any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Adverse weather conditions or other unforeseen developments could damage our facilities, reduce customer traffic and impair our ability to produce and deliver refined petroleum products or receive supplies for our retail fuel and convenience stores.

The regions in which we operate are susceptible to severe storms including hurricanes, thunderstorms, tornadoes, extended periods of rain, ice storms and snow, all of which we have experienced in the past few years. Inclement weather conditions could damage our facilities, interrupt production, adversely impact consumer behavior, travel and retail fuel and convenience store traffic patterns or interrupt or impede our ability to operate our locations. If such conditions prevail in Texas, they could interrupt or undermine our ability to produce and transport products from our Tyler refinery and receive and distribute products at our terminals. Regional occurrences, such as energy shortages or increases in energy prices, fires and other natural disasters, could also hurt our business. The occurrence of any of these developments could have a material adverse effect on our business, financial condition and results of operations.

Our operating results are seasonal and generally lower in the first and fourth quarters of the year for our refining and marketing segments and in the first quarter of the year for our retail segment. We depend on favorable weather conditions in the spring and summer months.

Demand for gasoline and other merchandise is generally higher during the summer months than during the winter months due to seasonal increases in motor vehicle traffic. As a result, the operating results of our refining segment and wholesale fuel segment are generally lower for the first and fourth quarters of each year. Seasonal fluctuations in traffic also affect sales of motor fuels and merchandise in our retail fuel and convenience stores. As a result, the operating results of our retail segment are generally lower for the first quarter of the year. In addition, demand for asphalt products is generally higher in the summer months than during the winter months due to increased road construction. This seasonality in asphalt sales may negatively impact the portion of Lion Oil Company profits or losses reported by us during the winter months.

Weather conditions in our operating area also have a significant effect on our operating results. Customers are more likely to purchase higher profit margin items at our retail fuel and convenience stores, such as fast foods, fountain drinks and other beverages and more gasoline during the spring and summer months, thereby typically generating higher revenues and gross margins for us in these periods. Unfavorable weather conditions during these months and a resulting lack of the expected seasonal upswings in traffic and sales could have a material adverse effect on our business, financial condition and results of operations.

We depend on one supplier for a significant portion of our retail fuel supply.

We purchased approximately 29% of our fuel for our retail fuel and convenience stores in 2007 from a single supplier, Valero Marketing and Supply Company. Our contract with Valero expires in May 2008 and provides us with discounts that may not be available to us from other suppliers. We cannot assure you that we will be able to renew our contract with Valero on terms that are equal or more favorable to us, if at all, or that we would be able to secure equal or more favorable terms from another supplier. A change of fuel supplier, a disruption in supply or a significant change in our relationship with this fuel supplier could lead to an increase in our fuel costs and could have a material adverse effect on our business, financial condition and results of operations.

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We depend on one wholesaler for a significant portion of our convenience store merchandise.

We purchased approximately 54% of our general merchandise, including most tobacco products and grocery items, in 2007 from a single wholesale grocer, McLane Company, Inc., under a contract that expired on December 31, 2007. Beginning December 31, 2007, we began purchasing our general merchandise from Core-Mark International, Inc. under a long-term contract. A change of merchandise suppliers, a disruption in supply or a significant change in our relationship or pricing with our principal merchandise supplier could lead to an increase in our cost of goods or a reduction in the reliability of timely deliveries and could have a material adverse effect on our business, financial condition and results of operations.

In addition, we believe that our arrangements with vendors with respect to allowances, payment terms and operational support commitments, have enabled us to decrease the operating expenses of convenience stores that we acquire. If we are unable to maintain favorable arrangements with these vendors, we may be unable to continue to effect operating expense reductions at convenience stores we have acquired or will acquire.

Insufficient ethanol supplies or disruption in ethanol supply may disrupt our ability to market ethanol blended fuels.

The ethanol that we blend into our fuel at our Tyler terminal and in many of our retail fuel and convenience stores cannot be delivered through pipelines. Therefore, ethanol must be blended with gasoline at the distribution terminal. In addition to the quantities of ethanol that we must obtain and maintain for blending at our Tyler terminal, we must obtain and maintain sufficient quantities of ethanol to blend with fuel supplied to our retail stores because the majority of our retail fuel suppliers do not offer ethanol blended gasoline at their terminals. In the event that we are unable to obtain or maintain sufficient quantities of ethanol to support our blending needs, our sale of ethanol blended gasoline could be interrupted or suspended which could result in lower profits in our refining and retail segments.

We have entered into fixed formula contracts to purchase ethanol for the majority of our 2008 supply requirements.

As part of our ethanol blending program, we have entered into contracts to purchase the majority of our 2008 ethanol supply requirements using a fixed formula to calculate the purchase price. In the event our competitors are able to purchase ethanol at prices that are equal to or more favorable than the prices we pay under these contracts, we may receive no competitive advantage under our blending program, or we may suffer a competitive disadvantage under our blending program, either of which could have a material adverse effect on our business, financial condition or results of operations. Moreover, if any of the suppliers with whom we have entered into such contracts become unable to fulfill the terms of our contract with them, we may not be able to enforce the terms of our contract or purchase ethanol at the previously negotiated price. This could also have the effect of placing us at a competitive disadvantage as to our competitors.

Due to our minority equity ownership position in Lion Oil Company, we cannot control the operations of the El Dorado refinery or the corporate and management policies of Lion Oil.

As of December 31, 2007, we owned approximately 34.6% of the issued and outstanding common stock of Lion Oil Company, a privately held Arkansas corporation that owns and operates a refinery in El Dorado, Arkansas. Approximately 53.7% of the issued and outstanding common stock of Lion Oil is owned by one shareholder. This controlling shareholder is party to a management agreement with Lion Oil and, due to its majority equity ownership position, is able to elect a majority of the Lion Oil board of directors. As a result of our minority equity ownership position and the controlling shareholder s majority equity ownership position and contractual management rights, we are unable to control the operations of the refinery in El Dorado, Arkansas.

So long as there is a controlling shareholder of Lion Oil that maintains a majority equity ownership position in, and the contractual management rights with, Lion Oil, the controlling shareholder will continue to control the election of a majority of Lion Oil s directors, influence Lion Oil s corporate and management policies (including the declaration of dividends and the timing and preparation of its financial statements) and determine, without our

consent, the outcome of any corporate transaction or other matter submitted to Lion Oil shareholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions.

Our equity investment in Lion Oil is somewhat illiquid because there is no active trading market for shares of Lion Oil common stock.

Because Lion Oil is a privately held corporation, there is no active trading market for shares of Lion Oil common stock. As a result, we cannot assure you that we will be able to increase or decrease our equity interest in Lion Oil, or that if we do, we will be able to do so upon favorable terms or at favorable prices.

Because we recognize our investment in Lion Oil under the equity method of accounting, the earnings or losses reported by Lion Oil will have a direct effect upon our earnings.

Due to our ownership percentage in Lion Oil, we recognize our investment using the equity method of accounting. As a result, the earnings or losses reported by Lion Oil will have a direct impact on our earnings or losses per share. The refinery in El Dorado, Arkansas is an independent refinery subject to many of the same risk factors as our Tyler refinery, as well as other risk factors some of which are detailed in this annual report. To the extent that these factors adversely impact Lion Oil s earnings, our earnings per share may be adversely affected as well.

If our proprietary technology systems are ineffective in enabling our managers to efficiently manage our operations, our operating performance will decline.

We invest in and rely heavily upon our proprietary information technology systems to enable our managers to access real-time data from our supply chain and inventory management systems, our security systems and to monitor customer and sales information. For example, our proprietary technology systems enable our managers to view data for our stores, merchandise or fuel on an aggregate basis or by specific store, type of merchandise or fuel product, which in turn enables our managers to quickly determine whether budgets and projected margins are being met and to make adjustments in response to any shortfalls. In the absence of this proprietary information technology, our managers would be unable to respond as promptly in order to reduce inefficiencies in our cost structure and maximize our sales and margins.

Our insurance policies do not cover all losses, costs or liabilities that we may experience, and insurance companies that currently insure companies in the energy industry may cease to do so or substantially increase premiums.

While we carry property, business interruption, pollution and casualty insurance, we do not maintain insurance coverage against all potential losses. We could suffer losses for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition and results of operations.

The energy industry is highly capital intensive, and the entire or partial loss of individual facilities can result in significant costs to both industry companies, such as us, and their insurance carriers. In recent years, several large energy industry claims have resulted in significant increases in the level of premium costs and deductible periods for participants in the energy industry. For example, during 2005, Hurricanes Katrina and Rita caused significant damage to several petroleum refineries along the Gulf Coast, in addition to numerous oil and gas production facilities and pipelines in that region. As a result of large energy industry claims, insurance companies that have historically participated in underwriting energy-related facilities may discontinue that practice, or demand significantly higher premiums or deductible periods to cover these facilities. If significant changes in the number or financial solvency of insurance underwriters for the energy industry occur, or if other adverse conditions over which we have no control prevail in the insurance market, we may be unable to obtain and maintain adequate insurance at reasonable cost.

In addition, we cannot assure you that our insurers will renew our insurance coverage on acceptable terms, if at all, or that we will be able to arrange for adequate alternative coverage in the event of non-renewal. The

unavailability of full insurance coverage to cover events in which we suffer significant losses could have a material adverse effect on our business, financial condition and results of operations.

A substantial portion of our refinery workforce is unionized, and we may face labor disruptions that would interfere with our operations.

As of December 31, 2007, we employed 271 people at our Tyler refinery and pipeline. From among these employees, 149 of our operations and maintenance hourly employees and 27 truck drivers at the refinery were covered by separate collective bargaining agreements which expire on January 1, 2009 and January 31, 2009, respectively. Although these collective bargaining agreements contain provisions to discourage strikes or work stoppages, we cannot assure you that strikes or work stoppages will not occur. A strike or work stoppage could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on gasoline and diesel fuel sales at our retail fuel and convenience stores which makes us susceptible to increases in the cost of gasoline and interruptions in fuel supply.

Net fuel sales represented approximately 77%, 76% and 73% of total net sales of our retail segment for 2007, 2006 and 2005, respectively. Our dependence on fuel sales makes us susceptible to increases in the cost of gasoline and diesel fuel. As a result, fuel profit margins have a significant impact on our earnings. The volume of fuel sold by us and our fuel profit margins are affected by numerous factors beyond our control, including the supply and demand for fuel, volatility in the wholesale fuel market and the pricing policies of competitors in local markets. Although we can rapidly adjust our pump prices to reflect higher fuel costs, a material increase in the price of fuel could adversely affect demand. A material, sudden increase in the cost of fuel that causes our fuel sales to decline could have a material adverse effect on our business, financial condition and results of operations.

Our dependence on gasoline sales makes us susceptible to interruptions in fuel supply. We typically have no more than a five-day supply of fuel at each of our retail fuel and convenience stores. Our fuel contracts do not guarantee an uninterrupted, unlimited supply in the event of a shortage. In addition, gasoline sales generate customer traffic to our retail fuel and convenience stores. As a result, decreases in gasoline sales, in the event of a shortage or otherwise, could adversely affect our merchandise sales. A serious interruption in the supply of gasoline could have a material adverse effect on our business, financial condition and results of operations.

We may incur losses as a result of our forward contract activities and derivative transactions.

We occasionally use derivative financial instruments, such as interest rate swaps and interest rate cap agreements, and fuel related derivative transactions, and we expect to continue to enter into these types of transactions. We cannot assure you that the strategies underlying these transactions will be successful. If any of the instruments we utilize to hedge our exposure to various types of risk is not effective, we may incur losses.

If we violate state laws regulating our sale of tobacco and alcohol products, or if these laws are changed, our results of operations will suffer.

We sell tobacco products in all of our stores and alcohol products in approximately 93% of our stores. Our net sales from the sale of tobacco and alcohol products were approximately $215.4 million, $178.9 million and $161.9 million for 2007, 2006 and 2005, respectively. State laws regulate the sale of tobacco and alcohol products. For example, state and local regulatory agencies have the power to approve, revoke, suspend or deny applications for, and renewals of, permits and licenses relating to the sale of these products or to seek other remedies. Certain states regulate relationships, including overlapping ownership, among alcohol manufacturers, wholesalers and retailers and may deny or revoke licensure if relationships in violation of the state laws exist. In addition, certain states have adopted or are

considering adopting warm beer laws that seek to discourage driving under the influence of alcohol by prohibiting the sale of refrigerated beer. Our violation of state laws regulating our sale of tobacco and alcohol products or a change in these laws, such as the adoption of a warm beer law in one or more of the states we operate, could have a material adverse effect on our business, financial condition and results of operations.

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If we fail to meet our obligations under our long-term branded gasoline supply agreement with BP, the agreement may be terminated and we may incur penalties.

In December 2005, we entered into a branded gasoline jobber supply agreement with BP, to purchase a portion of our gasoline products for a minimum of 15 years. The agreement requires us to purchase specified minimum quantities of branded gasoline products annually, which quantities escalate on a yearly basis. Sales of BP branded gasoline under this agreement accounted for approximately 12% of our total fuel sales volume in 2007. If we fail to purchase the applicable annual minimum quantities, BP may terminate the agreement and we could be required to pay BP damages equal to the difference between the specified contractual minimum annual gallons of gasoline products and the amount actually purchased by us, multiplied by a specified per gallon amount. The termination of the agreement by BP and the imposition of damages could have a material adverse effect on our business, financial condition and results of operations. We recorded liabilities for failure to purchase required contractual volume minimums of $0.2 million in both 2007 and 2006.

If there is negative publicity concerning the BP, Exxon, Shell, Conoco, Marathon or Chevron brand names, sales at certain of our stores may suffer.

Fuel sold under the BP, Exxon, Shell, Conoco, Marathon and Chevron brand names represented approximately 37% of total fuel sales volume for the retail segment in 2007. If there is negative publicity concerning any of these major oil companies, we could suffer a decline in sales volume at these stores and it could have a material adverse effect on our business, financial condition and results of operations.

It may be difficult to serve process on or enforce a United States judgment against those of our directors who reside in Israel.

On the date of this report, three of our directors reside in the State of Israel. As a result, you may have difficulty serving legal process within the United States upon any of these persons. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in United States courts against these persons in any action, including actions based upon the civil liability provisions of United States federal or state securities laws, because a substantial portion of the assets of these directors is located outside of the United States. Furthermore, there is substantial doubt that the courts of the State of Israel would enter judgments in original actions brought in those courts predicated on U.S. federal or state securities laws.

If we are, or become, a U.S. real property holding corporation, special tax rules may apply to a sale, exchange or other disposition of common stock and non-U.S. holders may be less inclined to invest in our stock as they may be subject to U.S. federal income tax in certain situations.

A non-U.S. holder will be subject to U.S. federal income tax with respect to gain recognized on the sale, exchange or other disposition of common stock if we are, or were, a U.S. real property holding corporation, or a USRPHC, at any time during the shorter of the five-year period ending on the date of the sale or other disposition and the period such non-U.S. holder held our common stock (the shorter period referred to as the lookback period). In general, we would be a USRPHC if the fair market value of our U.S. real property interests, as such term is defined for U.S. federal income tax purposes, equals or exceeds 50% of the sum of the fair market value of our worldwide real property interests and our other assets used or held for use in a trade or business. Based on our estimates of the fair market value of our U.S. real property interests, we believe that, as of December 31, 2007, less than 27.1% of our assets constituted U.S. real property interests. However, because the test for determining USRPHC status is applied on certain specific determination dates and is dependent upon a number of factors, some of which are beyond our control (including, for example, fluctuations in the value of our assets); it is possible that we will become a USRPHC in the future. In addition, it is possible that the Internal Revenue Service will not agree with our conclusions regarding the

valuation of our assets or our current USRPHC status. If we are or become a USRPHC, so long as our common stock is regularly traded on an established securities market such as the New York Stock Exchange (NYSE), only a non-U.S. holder who, actually or constructively, holds or held during the lookback period more than 5% of our common stock will be subject to U.S. federal income tax on the disposition of our common stock.

The costs, scope and timelines of our capital projects may deviate significantly from our original plans and estimates.

We may experience unanticipated increases in the cost, scope and completion time for our capital improvement projects, including capital projects at the refinery undertaken to comply with government regulations. Equipment that we require to complete capital projects may be unavailable to us at expected costs or within expected time periods, increasing project costs or causing delays. Additionally, employee or contractor labor expense may exceed our expectations. The inability to complete our capital projects within the cost parameters and timelines we anticipate due to these or other factors beyond our control could have a material adverse effect on our business, financial condition and results of operations.

If we lose any of our key personnel, our ability to manage our business and continue our growth could be negatively impacted.

Our future performance depends to a significant degree upon the continued contributions of our senior management team and key technical personnel. We do not currently maintain key person life insurance policies, non-compete agreements or employment agreements with the majority of our senior management team. The loss or unavailability to us of any member of our senior management team or a key technical employee could significantly harm us. We face competition for these professionals from our competitors, our customers and other companies operating in our industry. To the extent that the services of members of our senior management team and key technical personnel would be unavailable to us for any reason, we would be required to hire other personnel to manage and operate our company and to develop our products and technology. We cannot assure you that we would be able to locate or employ such qualified personnel on acceptable terms or at all.

Litigation and/or negative publicity concerning food quality, health and other related issues could result in significant liabilities or litigation costs and cause consumers to avoid our convenience stores.

Negative publicity, regardless of whether the concerns are valid, concerning food quality, food safety or other health concerns, facilities, employee relations or other matters related to our operations may materially adversely affect demand for food offered in our convenience stores and could result in a decrease in customer traffic to our stores. Additionally, we may be the subject of complaints or litigation arising from food-related illness or injury in general which could have a negative impact on our business.

It is critical to our reputation that we maintain a consistent level of high quality food in our stores. Health concerns, poor food quality or operating issues stemming from one store or a limited number of stores can materially adversely affect the operating results of some or all of our stores and harm our proprietary brands.

Risks Related to Our Common Stock

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

The market price of our common stock may be influenced by many factors, some of which are beyond our control, including:

- our quarterly or annual earnings or those of other companies in our industry;
- announcements by us or our competitors of significant contracts or acquisitions;
- changes in accounting standards, policies, guidance, interpretations or principles;

general economic and stock market conditions;

the failure of securities analysts to cover our common stock or changes in financial estimates by analysts;

future sales of our common stock; and

the other factors described in these Risk Factors.

In recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in our industry. The changes frequently appear to occur without regard to the operating performance of these companies. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

In the past, some companies that have had volatile market prices for their securities have been subject to securities class action suits filed against them. The filing of a lawsuit against us, regardless of the outcome, could have a material adverse effect on our business, financial condition and results of operations, as it could result in substantial legal costs and a diversion of our management s attention and resources.

You may suffer substantial dilution.

You will suffer dilution if stock, restricted stock units, restricted stock, stock options, warrants or other equity awards, whether currently outstanding or subsequently granted, are exercised. You will also suffer dilution if we issue currently unissued shares of our stock to future sellers in furtherance of our growth strategy.

We are a controlled company within the meaning of the NYSE rules and, as a result, we qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

A company of which more than 50% of the voting power is held by an individual, a group or another company is a controlled company and may elect not to comply with certain corporate governance requirements of the NYSE, including:

- the requirement that a majority of our board of directors consist of independent directors;
- the requirement that we have a nominating / corporate governance committee consisting entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and
- the requirement that we have a compensation committee consisting entirely of independent directors with a written charter addressing the committee s purpose and responsibilities.

We utilize all of these exemptions. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

Our controlling stockholder, Delek Group Ltd., may have conflicts of interest with other stockholders in the future.

At December 31, 2007, Delek Group Ltd. owned approximately 73.4% of our outstanding common stock. As a result, Delek Group Ltd. and its controlling shareholder, Mr. Sharon, will continue to be able to control the election of our directors, influence our corporate and management policies (including the declaration of dividends) and determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions. So long as Delek Group Ltd. continues to own a significant amount of the outstanding shares of our common stock, Delek Group Ltd. will continue to be able to influence or effectively control our decisions, including whether to pursue or consummate potential mergers or acquisitions, asset sales, and other significant corporate transactions. We cannot assure you that the interests of Delek Group Ltd. will coincide with the interests of other holders of our common stock.

Future sales of currently unregistered shares of our common stock could depress the price of our common stock.

The market price of our common stock could decline as a result of the introduction of a large number of currently unregistered shares of our common stock into the market or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. At December 31, 2007, 39,389,869 unregistered shares of our shares of common stock were controlled by Delek Group, Ltd. Delek Group Ltd. will be

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able to register under the Securities Act, subject to specified limitations, common stock it owns, pursuant to a registration rights agreement with us. The registration rights we granted to Delek Group Ltd. apply to all shares of our common stock owned by Delek Group Ltd. and entities it controls. In addition, on the date of this report, Morgan Stanley Capital Group, Inc. owned 1,916,667 unregistered shares of our common stock. Pursuant to a registration rights agreement with us, Morgan Stanley will be able to register these shares under the Securities Act, subject to specified limitations.

We depend upon our subsidiaries for cash to meet our obligations and pay any dividends.

We are a holding company. Our subsidiaries conduct substantially all of our operations and own substantially all of our assets. Consequently, our cash flow and our ability to meet our obligations or pay dividends to our stockholders depend upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of dividends, tax sharing payments or otherwise. Our subsidiaries ability to make any payments will depend on many factors, including their earnings, the terms of their indebtedness, tax considerations and legal restrictions.

We may be unable to pay future dividends in the anticipated amounts and frequency set forth herein.

We will only be able to pay dividends from our available cash on hand and funds received from our subsidiaries. Our ability to receive dividends from our subsidiaries is restricted under the terms of their senior secured credit facilities. The declaration of future dividends on our common stock will be at the discretion of our board of directors and will depend upon many factors, including our results of operations, financial condition, earnings, capital requirements, restrictions in our debt agreements and legal requirements. Although we currently intend to pay quarterly cash dividends on our common stock at an annual rate of $0.15 per share, we cannot assure you that any dividends will be paid in the anticipated amounts and frequency set forth herein, if at all.

Provisions of Delaware law and our organizational documents may discourage takeovers and business combinations that our stockholders may consider in their best interests, which could negatively affect our stock price.

In addition to the fact that Delek Group Ltd. owns the majority of our common stock, provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change in control of our company or deterring tender offers for our common stock that other stockholders may consider in their best interests.

Our certificate of incorporation authorizes us to issue up to 10,000,000 shares of preferred stock in one or more different series with terms to be fixed by our board of directors. Stockholder approval is not necessary to issue preferred stock in this manner. Issuance of these shares of preferred stock could have the effect of making it more difficult and more expensive for a person or group to acquire control of us and could effectively be used as an anti-takeover device. On the date of this report, no shares of our preferred stock are outstanding.

Our bylaws provide for an advance notice procedure for stockholders to nominate director candidates for election or to bring business before an annual meeting of stockholders and require that special meetings of stockholders be called only by our chairman of the board, president or secretary after written request of a majority of our board of directors.

The anti-takeover provisions of Delaware law and provisions in our organizational documents may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

We are exposed to risks relating to evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

To comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), we are required to evaluate our internal controls systems to allow

management to report on, and our independent auditors to audit, our internal controls over financial reporting. During this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations that remain unremediated. As a public company, we are required to report, among other things, control deficiencies that constitute a material weakness or changes in internal controls that, or are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

If we fail to comply with the requirements of Section 404, we may be subject to sanctions or investigation by regulatory authorities such as the SEC or the NYSE. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may face restricted access to the capital markets, and our stock price may decline.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

We own a refinery in Tyler, Texas, which is used by our refining segment and is situated on approximately 100 out of a total of approximately 600 acres of land owned by us, along with an associated crude oil pipeline and light products loading facilities. In January 2008, we purchased four additional vacant or undeveloped properties totaling less than ten acres and a railroad spur of less than two acres adjacent to our property for additional flexibility and buffer. This additional acreage is included in the total of approximately 600 acres owned by us. We also own terminals in San Angelo and Abilene, Texas, which are used by our marketing segment, along with 114 miles of refined product pipelines and light product loading facilities.

As of December 31, 2007, we owned the real estate at 293 retail fuel and convenience store locations, and leased the real property at 204 stores. Of the stores owned or leased by us, 20 were either leased or subleased to third party dealers; 38 other dealer sites are owned or leased independently by dealers.

The following table summarizes the real estate position of our retail segment.

State	Number of Company Operated Sites	Number of Dealer Sites(1)	Number of Owned Sites	Number of Leased Sites	Remaining Lease Term < 3 Years(2)	Remaining Lease Term > 3 Years(2)
Tennessee	264	11	157	114	10	104
Alabama	94	41	63	41	6	35
Georgia	81	4	46	38	5	33
Virginia	36		26	10		10
Arkansas	15		9	6	2	4

Kentucky	3		1	2		2
Louisiana	2			2	1	1
Mississippi	2		2			
Florida		2				
Total	497	58	304	213	24	189

(1) Includes 38 sites neither owned by nor subleased by us.

(2) Includes renewal options; measured as of December 31, 2007.

Most of our retail fuel and convenience store leases are net leases requiring us to pay taxes, insurance and maintenance costs. Of the leases that expire in less than three years, we anticipate that we will be able to negotiate

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acceptable extensions of the leases for those locations that we intend to continue operating. We believe that none of these leases are individually material.

We lease our corporate headquarters at 7102 Commerce Way, Brentwood, Tennessee. The lease is for 54,000 square feet of office space of which we occupy 34,000 square feet and sub-lease the remaining space. The lease term expires in March 2022.

ITEM 3. *LEGAL PROCEEDINGS*

In the ordinary conduct of our business, from time to time we are subject to lawsuits, investigations and claims, including, environmental claims and employee related matters. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding or proceedings to which we are a party will have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

None.

PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES*

Market Information and Dividends

Our common stock is traded on the New York Stock Exchange under the symbol DK. The following table sets forth the quarterly high and low sales prices of our common stock for each quarterly period in 2006 and 2007 and dividends issued in these periods since our common stock began trading on the New York Stock Exchange on May 4, 2006:

Period	High Sales Price	Low Sales Price	Regular Dividends Per Common Share	Special Dividends Per Common Share
2006:				
Second quarter	$ 17.99	$ 12.08	None	None
Third quarter	$ 22.85	$ 14.83	None	None
Fourth quarter	$ 19.00	$ 15.72	$ 0.0375	None
2007:				
First quarter	$ 19.28	$ 14.82	$ 0.0375	None
Second quarter	$ 28.49	$ 18.67	$ 0.0375	$ 0.1975
Third quarter	$ 30.77	$ 21.35	$ 0.0375	None
Fourth quarter	$ 26.17	$ 17.50	$ 0.0375	$ 0.1975

In connection with our initial public offering in May 2006, our Board of Directors announced its intention to pay a regular quarterly cash dividend of $0.0375 per share of our common stock beginning in the fourth quarter of 2006. The dividends paid in 2007 totaled approximately $28.5 million. We intend to continue to pay quarterly cash

dividends on our common stock at an annual rate of $0.15 per share. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, legal requirements, restrictions in our debt agreements and other factors our board of directors deems relevant. Except as represented in the schedule above, we have paid no other cash dividends on our common stock during the two most recent fiscal years.

Holders

As of February 1, 2008, we had approximately 9 common stockholders of record. This number does not include beneficial owners of our common stock whose stock is held in nominee or street name accounts through brokers.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

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Performance Graph

The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph and table compare cumulative total returns for our stockholders since May 4, 2006 (the date of our initial public offering) to the Standard and Poor s 500 Stock Index and a peer group selected by management. The graph assumes a $100 investment made on May 4, 2006. Each of the three measures of cumulative total return assumes reinvestment of dividends. The peer group is comprised of Alon USA Energy, Inc., Casey s General Stores, Inc., Frontier Oil Corporation, Holly Corporation, Pantry, Inc., Sunoco, Inc., Susser Holdings Corporation, Tesoro Corporation, TravelCenters of America, LLC, Valero Energy Corporation and Western Refining, Inc. The stock performance shown on the graph below is not necessarily indicative of future price performance.

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ITEM 6. *SELECTED FINANCIAL DATA*

The following selected financial data should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

	Year Ended December 31,				
	2007	2006(1)(2)	2005(2)(3)	2004(4)	2003
	(In millions, except share and per share data)				
Statement of Operations Data:					
Net sales:					
Retail	$ 1,775.8	$ 1,395.6	$ 1,101.0	$ 857.8	$ 600.2
Refining	1,694.3	1,598.6	930.5		
Marketing	626.6	221.6			
Other	0.4	0.3	0.4	0.1	
Total net sales	4,097.1	3,216.1	2,031.9	857.9	600.2
Operating costs and expenses:					
Cost of goods sold	3,632.5	2,824.4	1,730.1	730.8	500.2
Operating expenses	220.5	175.5	134.6	80.1	62.7
General and administrative expenses	54.6	38.2	23.5	15.1	12.8
Depreciation and amortization	33.1	22.8	16.1	12.4	8.8
Loss (gain) on disposal of assets			(1.6)	(0.9)	(0.4)
Unrealized (gain) loss on forward contract hedging activities(5)	(0.1)		9.1		
Total operating costs and expenses	3,940.6	3,060.9	1,911.8	837.5	584.1
Operating income	156.5	155.2	120.1	20.4	16.1
Interest expense	30.6	24.2	17.4	7.1	5.9
Interest income	(9.3)	(7.2)	(2.1)		
Interest expense to related parties		1.0	3.0	1.2	0.1
Loss from equity method investment	0.8				
Other expenses, net	2.4	0.2	2.5	0.7	(0.2)
Total non-operating expenses, net	24.5	18.2	20.8	9.0	5.8

Income before income taxes and cumulative effect of a change in accounting policy		132.0		137.0		99.3		11.4		10.3
Income tax expense		35.6		44.0		34.9		4.1		3.8
Income before cumulative effect of a change in accounting policy		96.4		93.0		64.4		7.3		6.5
Cumulative effect of a change in accounting policy						(0.3)				
Net income	$	96.4	$	93.0	$	64.1	$	7.3	$	6.5
Basic earnings per share:										
Income before cumulative effect of a change in accounting policy	$	1.85	$	1.98	$	1.64	$	0.19	$	0.16
Cumulative effect of a change in accounting policy						(0.01)				
Basic earnings per share	$	1.85	$	1.98	$	1.63	$	0.19	$	0.16
Diluted earnings per share:										
Income before cumulative effect of a change in accounting policy	$	1.82	$	1.94	$	1.64	$	0.19	$	0.16
Cumulative effect of a change in accounting policy						(0.01)				
Diluted earnings per share	$	1.82	$	1.94	$	1.63	$	0.19	$	0.16
Weighted average shares, basic		52,077,893		47,077,369		39,389,869		39,389,869		39,389,869
Weighted average shares, diluted		52,850,231		47,915,962		39,389,869		39,389,869		39,389,869
Dividends declared per common share outstanding	$	0.54	$	0.04	$		$		$	

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	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In millions)				
Cash Flow Data:					
Cash flows provided by operating activities	$ 179.9	$ 110.2	$ 148.7	$ 24.9	$ 26.3
Cash flows used in investing activities	(222.7)	(251.4)	(162.3)	(27.3)	(16.1)
Cash flows provided by (used in) financing activities	45.5	180.2	54.1	5.6	(2.3)
Net increase in cash and cash equivalents	$ 2.7	$ 39.0	$ 40.5	$ 3.2	$ 7.9

	December 31,				
	2007	2006	2005	2004	2003
	(In millions)				
Balance Sheet Data:					
Cash and cash equivalents	$ 104.3	$ 101.6	$ 62.6	$ 22.1	$ 18.9
Short-term investments	45.5	73.2	26.6		
Total current assets	440.0	410.6	251.8	64.0	46.7
Property, plant and equipment, net	546.1	424.7	270.6	189.3	136.5
Total assets	1,237.8	949.4	606.2	330.1	256.8
Total current liabilities	298.5	230.9	175.8	72.2	48.5
Total debt, including current maturities	355.2	286.6	268.8	203.3	168.8
Total non-current liabilities	426.8	336.3	310.6	202.1	159.8
Total shareholders equity	512.5	382.2	119.8	55.8	48.4
Total liabilities and shareholders equity	1,237.8	949.4	606.2	330.1	256.8

(1) Effective August 1, 2006, marketing operations were initiated in conjunction with the acquisition of the Pride assets.

(2) Refinery segment operating results reflect certain reclassifications made to conform prior year balances to current year financial statement presentation. Sales of intermediate feedstock sales have been reclassified to net sales which had previously been presented on a net basis in cost of goods sold. Certain pipeline expenses previously presented in cost of goods sold have been reclassified to operating expenses, general and administrative expenses and depreciation. These reclassifications had no effect on either net income or shareholders equity, as previously reported.

(3) Effective April 29, 2005, we completed the acquisition of the Tyler refinery and related assets. We operated the refinery for 247 days in 2005. The results of operations of the Tyler refinery and related assets are included in our financial results from the date of acquisition.

(4) Effective April 30, 2004, we completed the acquisition of 100% of the outstanding stock of Williamson Oil. The results of operations of Williamson Oil are included in our financial results from the date of acquisition.

(5) To mitigate the risks of changes in the market price of crude oil and refined petroleum products, we may enter into forward contracts to fix the purchase price of crude and sales price of specific refined petroleum products for a predetermined number of units at a future date.

Segment Data(1):

	As Of and for the Year Ended December 31, 2007				
	Refining(2)	Retail	Marketing (In millions)	Corporate, Other and Eliminations	Consolidated
Net sales (excluding intercompany marketing fees and sales)	$ 1,709.0	$ 1,775.8	$ 611.9	$ 0.4	$ 4,097.1
Intercompany marketing fees and sales	(14.7)		14.7		
Cost of goods sold	1,460.2	1,575.4	596.9		3,632.5
Operating expenses	82.2	136.8	1.0	0.5	220.5
Segment contribution margin	$ 151.9	$ 63.6	$ 28.7	$ (0.1)	244.1
General and administrative expenses					54.6
Depreciation and amortization					33.1
Gain on forward contract activities					(0.1)
Operating income					$ 156.5
Total assets	$ 377.4	$ 516.6	$ 91.5	$ 252.3	$ 1,237.8
Capital spending (excluding business combinations)	$ 61.6	$ 23.8	$ 0.3	$ 2.0	$ 87.7

	As Of and for the Year Ended December 31, 2006				
	Refining(2)	Retail	Marketing(3) (In millions)	Corporate, Other and Eliminations	Consolidated
Net sales (excluding intercompany marketing fees and sales)	$ 1,601.8	$ 1,395.6	$ 218.2	$ 0.5	$ 3,216.1
Intercompany marketing fees and sales	(3.2)	(0.2)	3.4		
Cost of goods sold	1,373.5	1,234.9	216.0		2,824.4
Operating expenses	71.9	102.8	0.3	0.5	175.5
Segment contribution margin	$ 153.2	$ 57.7	$ 5.3	$	216.2
General and administrative expenses					38.2
Depreciation and amortization					22.8

Operating income									$	155.2
Total assets	$	332.4	$	428.4	$	92.4	$	96.2	$	949.4
Capital spending (excluding business combinations)	$	74.9	$	22.4	$	0.2	$		$	97.5

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	As Of and for the Year Ended December 31, 2005				
	Refining(2)(4)	Retail	Marketing	Corporate, Other and Eliminations	Consolidated
			(In millions)		
Net sales (excluding intercompany and sales)	$ 930.5	$ 1,101.0	$	$ 0.4	$ 2,031.9
Intercompany sales	0.9	(0.9)			
Cost of goods sold	774.9	955.2			1,730.1
Operating expenses	47.3	86.9		0.4	134.6
Segment contribution margin	$ 109.2	$ 58.0	$	$	167.2
General and administrative expenses					23.5
Depreciation and amortization					16.1
Gain on disposal of assets					(1.6)
Loss on forward contract activities					9.1
Operating income					$ 120.1
Total assets	$ 235.6	$ 367.4	$	$ 3.2	$ 606.2
Capital spending (excluding business combinations)	$ 18.8	$ 10.4	$	$	$ 29.2

(1) Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information*, requires disclosure of a measure of segment profit or loss. In connection with the purchase of the Tyler refinery and related assets on April 29, 2005, management began viewing our company s operating results in two reportable segments: retail and refining. The initiation of operations in the marketing segment added a third reportable segment in the third quarter of 2006. We measure the operating performance of each segment based on segment contribution margin. We define segment contribution margin as net sales less cost of goods sold and operating expenses, excluding depreciation and amortization.

For the retail segment, cost of goods sold comprises the costs of specific products sold. Operating expenses include costs such as wages of employees at the stores, lease expense for the stores, utility expense for the stores and other costs of operating the stores, excluding depreciation and amortization.

For the refining segment, cost of goods sold includes all the costs of crude oil, feedstocks and external costs. Operating expenses include the costs associated with the actual operations of the refinery, excluding depreciation and amortization.

For the marketing segment, cost of goods sold includes all costs of refined products, additives and related transportation. Operating expenses include the costs associated with the actual operation of owned terminals, excluding depreciation and amortization, terminaling expense at third-party locations and pipeline maintenance costs.

(2) Refinery segment operating results reflect certain reclassifications made to conform prior year balances to current year financial statement presentation. Sales of intermediate feedstock sales have been reclassified to net sales which had previously been presented on a net basis in cost of goods sold. Certain pipeline expenses previously presented in cost of goods sold have been reclassified to operating expenses, general and administrative expenses and depreciation. These reclassifications had no effect on either net income or shareholders equity, as previously reported.

(3) Effective August 1, 2006, marketing operations were initiated in conjunction with the acquisition of the Pride assets.

(4) Effective April 29, 2005, we completed the acquisition of the Tyler refinery and related assets. We operated the refinery for 247 days in 2005.

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ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is management s analysis of our financial performance and of significant trends that may affect our future performance. It should be read in conjunction with the consolidated financial statements and related notes included in Item 8, Financial Statements and Supplementary Data, in this Annual Report on Form 10-K. Those statements in MD&A that are not historical in nature should be deemed forward-looking statements that are inherently uncertain.

Forward-Looking Statements

This Annual Report contains forward-looking statements that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, among other things, the information concerning our possible future results of operations, business and growth strategies, financing plans, expectations that regulatory developments or other matters will not have a material adverse effect on our business or financial condition, our competitive position and the effects of competition, the projected growth of the industry in which we operate, and the benefits and synergies to be obtained from our completed and any future acquisitions, and statements of management s goals and objectives, and other similar expressions concerning matters that are not historical facts. Words such as may, will, should, could, would, predicts, potential, co expects, anticipates, future, intends, plans, believes, estimates, appears, projects and similar expressi statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or management s good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to:

- competition;
- changes in, or the failure to comply with, the extensive government regulations applicable to our industry segments;
- decreases in our refining margins or fuel gross profit as a result of increases in the prices of crude oil, other feedstocks and refined petroleum products;
- our ability to execute our strategy of growth through acquisitions and transactional risks in acquisitions;
- general economic and business conditions, particularly levels of spending relating to travel and tourism or conditions affecting the southeastern United States;
- dependence on one principal fuel supplier and one wholesaler for a significant portion of our convenience store merchandise;
- unanticipated increases in cost or scope of, or significant delays in the completion of our capital improvement projects;

risks and uncertainties with respect to the quantities and costs of refined petroleum products supplied to our pipelines and/or held in our terminals;

operating hazards, natural disasters, casualty losses and other matters beyond our control;

increases in our debt levels;

restrictive covenants in our debt agreements;

seasonality;

terrorist attacks;

potential conflicts of interest between our major stockholder and other stockholders;

other factors discussed under Item 1, Business, and Item 1A, Risk Factors, of this Annual Report on Form 10-K and in our other filings with the SEC.

In light of these risks, uncertainties and assumptions, our actual results of operations and execution of our business strategy could differ materially from those expressed in, or implied by, the forward-looking statements, and you should not place undue reliance upon them. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.

Forward-looking statements speak only as of the date the statements are made. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

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 high conversion, moderate complexity independent refinery in Tyler, Texas, with a design crude distillation capacity of 60,000 barrels per day (bpd), along with an associated crude oil pipeline and light products loading facilities. 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. Additionally, we own a minority equity interest in Lion Oil Company, a privately-held Arkansas corporation, which operates a 75,000 bpd moderate complexity crude oil refinery and other pipeline and product terminals. The refinery is located in El Dorado, Arkansas.

The cost to acquire feedstocks and the price of the refined petroleum products we ultimately sell from our refinery depend on numerous factors beyond our control, including the supply of, and demand for, crude oil, gasoline and other refined petroleum products which, in turn, depend on, among other factors, changes in domestic and foreign economies, weather conditions, domestic and foreign political affairs, global conflict, production levels, the availability of imports, the marketing of competitive fuels and government regulation. Other significant factors that influence our results in our refining segment include the cost of crude, our primary raw material, the refinery s operating costs, particularly the cost of natural gas used for fuel and the cost of electricity, seasonal factors, refinery utilization rates and planned or unplanned maintenance activities or turnarounds.

Our sales and operating refined petroleum product prices fluctuate significantly with movements in crude oil and refined petroleum product prices. Both the spread between crude oil and refined petroleum product prices, and more recently the timeframe between these fluctuations in those prices, affect our earnings. We compare our per barrel refining operating margin to certain industry benchmarks, specifically the U.S. Gulf Coast 5-3-2 crack spread. The U.S. Gulf Coast 5-3-2 crack spread represents the differential between Platt s quotations for 3/5 of a barrel of U.S. Gulf Coast Pipeline 87 Octane Conventional Gasoline and 2/5 of a barrel of U.S. Gulf Coast Pipeline No. 2 Heating Oil (high sulfur diesel) on the one hand, and the first month futures price of 5/5 of a barrel of light sweet crude oil on the

New York Mercantile Exchange, on the other hand.

Over the past few years, we, as well as other oil refiners have operated in an upward-sloping oil pricing environment, where the current price of crude is lower than the future price as represented in the futures contract market. An upward-sloping market is referred to as a contango market. However, in September 2007, the global oil market started to reflect the expectation that oil prices in the near to intermediate term would be lower than spot market prices. In effect, the forward curve which represents the oil futures market is inverted, therefore the

market is now in backwardation. Due to this current market structure, and because our crude purchases and our refined product sales are executed using the futures market, our cost of crude is higher than the daily spot price; having a negative impact on our gross margin per barrel when compared to the industry crack spread, which is computed using spot prices for oil, gasoline, and diesel fuel. The direction of future prices is difficult to forecast; however, at present, a continuation of this backwardated market is reflected in the futures contract market structure.

Finally, while the increases in the cost of crude oil, are reflected in the changes of light refined products, the value of heavier products, such as fuel oil, asphalt and coke, have not moved in parallel with crude cost. This causes additional pressure on our refining margins.

The cost to acquire the refined fuel products we sell to our wholesale customers in our marketing segment and at our convenience stores in our retail segment depends on numerous factors beyond our control, including the supply of, and demand for, crude oil, gasoline and other refined petroleum products which, in turn, depends on, among other factors, changes in domestic and foreign economies, weather conditions, domestic and foreign political affairs, production levels, the availability of imports, the marketing of competitive fuels and government regulation. Our retail merchandise sales are driven by convenience, customer service, competitive pricing and branding. Motor fuel margin is sales less the delivered cost of fuel and motor fuel taxes, measured on a cents per gallon basis. Our motor fuel margins are impacted by local supply, demand, weather, competitor pricing and product brand.

As part of our overall business strategy, we regularly evaluate opportunities to expand and complement our business and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on our business, financial condition, liquidity or results of operations.

Strategic Initiatives

We are committed to enhancing shareholder value while maintaining financial stability and flexibility by continuing to:

- pursue acquisition opportunities that strengthen our core markets and leverage our core competencies;
- modernize, grow and improve the profitability of our operations through carefully evaluated capital investments;
- develop and refine innovative information technology applications for all business segments;
- provide value to our customers and employees by delivering a high level of customer service standards;
- demonstrate a prudent and scalable capital structure; and
- focus on health, safety and environmental compliance.

To accomplish the foregoing goals, the following represent certain significant accomplishments in 2007:

- In April 2007, we acquired 107 retail fuel and convenience stores in northern Georgia and southeastern Tennessee. Over the course of the remainder of 2007, we integrated these additional stores into our structure, creating two divisions in southeastern Tennessee and northern Georgia from what had formerly been a single division. Our retail segment strategy continues to center on operating a high concentration of sites in similar geographic regions to promote operational efficiencies and increase segment contribution margin.

In June 2007, Delek completed the implementation of a new disaster recovery infrastructure which encompasses replication of all critical systems from data centers located in Brentwood, Tennessee and Tyler, Texas. The disaster recovery system allows Delek to conduct business with high reliability and continuous data protection. Annual testing of the disaster recovery systems will be completed to help to ensure the integrity of our systems.

In July 2007, we commenced operation of a new 138kV power substation at the Tyler refinery that provided us with a more reliable, independent power supply.

In August 2007, we acquired a 28.4% equity ownership in Lion Oil, a privately held Arkansas corporation that owns and operates a refinery and other pipeline and product terminals. We increased our ownership percentage to 34.6% in September 2007.

In 2007, we introduced the MAPCO Mart brand to our Alabama division by opening two stores. This was the first time our concept brand has moved outside of Tennessee.

In 2007, we have become a leader in blending ethanol in our finished gasoline products, in our retail markets, allowing customers access to renewable E-10 products. In December 2007, we completed the necessary requirements to provide E-10 products at our Tyler terminal. We began offering these products January 1, 2008.

During 2007, we were able to increase the consumption of sour crude oil in the refinery. West Texas sour crude comprised approximately 7.7% of our crude slate for the year.

In April 2007, utilizing our proprietary information technology platform, we successfully completed verification testing and were granted approval to begin beta-testing an interface to the BP electronic payment system through a mid-stream device supplied by Verifone. In September 2007, MAPCO s point-of-sale was added to BP s list of certified EPS-integrated POS systems and we were given approval to deploy our point-of-sale to production. The production implementation was completed in November 2007. Completion of this development project allows full integration of all payment types through our proprietary point-of-sale system. We currently operate 37 convenience stores selling BP branded fuels.

During 2007, we paid dividends totaling approximately $28.5 million to our shareholders.

Our capital spending in 2007 totaled approximately $87.7 million including $35.2 for discretionary high return projects and $38.7 for health, safety and reliability projects.

Market Trends

Our results of operations are significantly affected by the cost of commodities. Sudden change in petroleum prices is our primary source of market risk. Our business model is affected more by the volatility of petroleum prices than by the cost of the petroleum that we sell.

We continually experience volatility in the energy markets. In 2007 compared to 2006, concerns about the U.S. economy and continued uncertainty in several oil-producing regions of the world resulted in increases in the price of crude oil which outpaced product prices in 2007 and 2006. The average price of crude oil in 2007, 2006 and 2005 was $72.44, $66.27 and $59.39 per barrel, respectively. In 2006 compared to 2005, high demand for refined products, a strengthening economy, production interruptions and the phase out of methyl tertiary-butyl ether (MTBE), resulted in increases in product prices that outpaced increases in crude oil and other feedstock prices in those years. The U.S. Gulf Coast 5-3-2 crack spread ranged from a high of $33.32 per barrel to a low of $3.88 per barrel during 2007 and averaged $13.04 per barrel during 2007 compared to an average of $10.16 in 2006 and $10.58 per barrel in 2005.

We also continue to experience high volatility in the wholesale cost of fuel. The U.S. Gulf Coast price for unleaded gasoline ranged from a low of $1.30 per gallon to a high of $2.60 per gallon in 2007 and averaged $2.05 per gallon in 2007, which compares to averages of $1.83 per gallon in 2006 and $1.69 per gallon in 2005. If this volatility continues and we are unable to fully pass our cost increases on to our customers, our retail fuel margins will decline.

Additionally, increases in the retail price of fuel could result in lower demand for fuel and reduced customer traffic inside our convenience stores in our retail segment. This may place downward pressure on in-store merchandise margins. Finally, the higher cost of fuel has also resulted in higher credit card fees as a percentage of sales and gross profit. As fuel prices increase, we see increased usage of credit cards by our customers and pay higher interchange costs since credit card fees are paid as a percentage of sales.

The cost of natural gas used for fuel in our Tyler refinery has also shown historic volatility. Our average cost of natural gas increased to $7.12 per million British Thermal Units (MMBTU) in 2007 from $6.89 per million MMBTU in 2006 and decreased from $10.13 per MMBTU in 2005.

As part of our overall business strategy, management determines, based on the market and other factors, whether to maintain, increase or decrease inventory levels of crude or other intermediate feedstocks. At the end of 2007, we reduced certain of our crude and feedstock inventories.

Factors Affecting Comparability

The comparability of our results of operations for the year ended December 31, 2007 compared to the years ended December 31, 2006 and 2005 was affected by the following factors:

the completion of several acquisitions in 2005 through 2007 including: the purchase of the Tyler refinery in April 2005; the purchase of 21 retail fuel and convenience stores, a network of four wholesale operators, four undeveloped properties and inventory from BP in December 2005 (the BP stores); the purchase of 43 retail fuel and convenience stores in Georgia and Tennessee from Fast Petroleum, Inc., in July 2006 (the Fast stores), the commencement of marketing operations in August 2006 in conjunction with the purchase of refined petroleum product terminals, seven pipelines and storage tanks from Pride Companies, L.P. (the Pride assets); the purchase of 107 retail fuel and convenience stores from Calfee Company of Dalton, Inc. in April 2007 (the Calfee stores); and the purchase from existing shareholders of a 34.6% minority interest equity investment in Lion Oil Company in August and September 2007 .

a scheduled turnaround at our Tyler refinery that was started and completed in December 2005;

the receipt of approximately $166.9 million in proceeds from an initial public offering of our stock in May 2006, after payment of offering expenses and underwriting discounts and commissions;

repayment of $42.5 million of related party debt in May 2006;

the adoption of SFAS No. 123(R), *Share-Based Payment* in January 2006;

an increase in general and administrative expenses in 2006 and 2007 compared to 2005 due to the costs of operating as a public company and the associated regulatory environment;

the completion of the distillate desulfurization unit at our Tyler refinery in 2006 which allowed for accelerated tax depreciation and generated specific federal tax credits that significantly reduced our effective income tax rate in 2007; and

continued optimization of the refinery operation in 2007 allowed us to run over 4,149 barrels per day of west Texas sour (WTS) crude oil resulting in additional margin in 2007 on that lower-priced feedstock, whereas we were not running any WTS crude oil in 2006 and 2005.

Results of Operations

Consolidated Results of Operation Comparison of the Year Ended December 31, 2007 versus the Year Ended December 31, 2006

In the fiscal years ended December 31, 2007 and 2006, we generated net sales of $4,097.1 million and $3,216.1 million, respectively. The increase in net sales was primarily due to an increase of $405.0 million in sales from the new marketing segment which initiated operations in the third quarter of 2006. Further contributing to the $881.0 million increase in net sales, $196.2 million was due to the Calfee stores acquired in April 2007 and $87.2 million was due to the Fast stores acquired in July 2006. The remaining increase resulted from higher average

sales prices in both our refining and retail segments which was partially offset by lower sales volume at the refinery due to weather-related power outages, mid-cycle maintenance and optimization of production during 2007.

Cost of goods sold was $3,632.5 million in 2007 compared to $2,824.4 million in 2006, an increase of $808.1 million or 28.6%. Of this total increase, $380.9 million resulted from the inclusion of the marketing segment costs, $169.5 million was due to the inclusion of the Calfee stores acquired and $78.6 million was due to the inclusion of the Fast stores acquired. The cost of crude oil increased 9.3% from an average of $72.44 per barrel in 2007 compared to $66.27 per barrel in 2006.

Operating expenses were $220.5 million in 2007 compared to $175.5 million in 2006, an increase of $45.1 million or 25.7%. This increase was primarily driven by the retail segment, including an increase of $21.2 million related to acquiring the Calfee stores in April 2007 and $6.1 million related to acquiring the Fast stores in July 2006. The remaining increase was primarily due to a continuing increase in credit card expense, resulting from both increased customer usage and interchange fees. In the refining segment, we incurred additional costs of $10.4 million primarily for maintenance-related expenditures, additional environmental expenses and increased chemical costs. The new marketing segment also contributed $0.7 million to the increased expenses.

General and administrative expenses were $54.6 million in 2007 compared to $38.2 million in 2006, an increase of $16.4 million, or 42.9%. We do not allocate general and administrative expenses to our operating segments. The overall increase was primarily due to the addition of personnel, professional support and contractors as a result of the acquisition of the Calfee and Fast stores, the new marketing segment, a $0.9 million increase in stock compensation expense, a $1.3 million increase in property taxes and the costs associated with being a public company, including our efforts related to meeting the requirement to certify compliance with the internal control provisions of Sarbanes-Oxley for the fiscal year ended December 31, 2007. We also incurred additional costs associated with potential acquisitions which we determined we will no longer pursue.

Depreciation and amortization was $33.1 million in 2007 compared to $22.8 million in 2006. This increase was primarily due to the inclusion of depreciation expense associated with the Calfee stores acquired in April 2007 and the inclusion of a full year of depreciation expense associated with the new marketing segment initiated in August 2006 and the Fast stores acquired in July 2006 as well as depreciation expense associated with several large capital projects in the refining segment, including the distillate desulfurization unit and the sulfur recovery unit placed in service at the refinery in September 2006.

Interest expense was $30.6 million in 2007 compared to $24.2 million in 2006, an increase of $6.4 million. This increase was primarily due to increased indebtedness in connection with the acquisitions of the Calfee and Fast stores and the start-up of the marketing segment. Interest income was $9.3 million in 2007 compared to $7.2 million in 2006, an increase of $2.1 million. This increase was due primarily to higher cash and short-term investment balances as a result of the refinery segment s favorable cash flow as well as the proceeds received from our initial public offering in May 2006. In addition, we had interest expense of $1.0 million in 2006 with no comparable expense in 2007 which was associated with related party notes payable that were repaid in connection with our initial public offering in May 2006.

Loss from equity method investment were $0.8 million in 2007 and relate to our proportionate share of loss from Lion Oil since the acquisition date of $0.6 million and $0.2 million of depreciation expense related to the fair value differential for property, plant and equipment determined at the acquisition date. We acquired a 28.4% ownership interest in August 2007 and purchased an additional 6.2% ownership interest in September 2007 for a combined total ownership interest of 34.6%.

Other operating expenses, net, were $2.4 million in 2007 compared to $0.2 million in 2006. In 2007, we recognized a $2.4 million loss associated with the change in the fair market value of our interest rate derivatives as compared to a nominal loss of less than $0.1 million in 2006.

Income tax expense was $35.6 million in 2007 compared to $44.0 million in 2006, a decrease of $8.4 million. This decrease primarily resulted from approximately $12.7 million in federal tax credit earned as a result of our production of ultra low sulfur diesel fuel, which we began producing in the third quarter of 2006. In 2006, this federal tax credit was approximately $4.3 million. We also benefit from federal tax incentives related to our refinery operations that reduce our effective tax rate from the statutory rate of 35%, including a deduction earned for being a domestic manufacturer. Deductions related to our qualifying domestic production activity approximate $6.3 million in 2007

compared to $2.0 million in 2006. These items contributed to our effective tax rate reducing to 27.0% in 2007 compared to 32.1% in 2006.

Consolidated Results of Operation Comparison of the Year Ended December 31, 2006 versus the Year Ended December 31, 2005

In the fiscal years ended December 31, 2006 and 2005, we generated net sales of $3,216.1 million and $2,031.9 million, respectively. The increase in net sales was primarily due to the inclusion of a full year of sales from the Tyler refinery and BP stores which were acquired in 2005, and the contribution from the acquisitions of the Fast stores and the Pride assets in the third quarter of 2006.

Of the $1,184.2 million increase in net sales, $611.6 million resulted from the inclusion of a full year of sales from acquisitions completed in 2005, $284.6 million of the increase was due to acquisitions completed during 2006, and the remaining increase resulted from an 8.9% increase in barrels sold per day at our refinery and higher average retail fuel prices and merchandise sales at our convenience stores.

Cost of goods sold was $2,824.4 million in 2006, compared to $1,730.1 million in 2005, an increase of $1,094.3 million or 63.3%. Of this total increase, $527.7 million resulted from the inclusion of a full year of sales from acquisitions made in 2005, $275.2 million of the increase was due to acquisitions completed during 2006, and the remaining increase was due to higher costs of crude in our refining segment and higher costs of fuel in our retail segment.

Operating expenses were $175.5 million in 2006 compared to $134.6 million in 2005, an increase of $40.8 million or 30.3%. Of this increase, $30.6 million resulted from the inclusion of a full year of sales from acquisitions made in 2005 and $5.3 million was due to acquisitions completed during 2006. Also contributing to the higher operating expenses were credit card expenses at our retail segment, which increased nearly $1.8 million over 2005 as a result of higher credit card transaction amounts due primarily to higher fuel prices, as well as increases in interchange fees charged by several credit card providers.

General and administrative expenses were $38.2 million in 2006 compared to $23.5 million in 2005, an increase of $14.7 million or 62.6%. We do not allocate general and administrative expenses to our operating segments. The overall increase was primarily due to recognition of share-based compensation associated with the implementation of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), additional bonuses associated with our initial public offering activity, increases in personnel, professional support and contractors as a result of being a public company and our efforts with Sarbanes Oxley compliance, consulting costs associated with several projects at the refinery and an increase in accrued liability related to general liability insurance.

Depreciation and amortization was $22.8 million in 2006 compared to $16.1 million in 2005. This increase was primarily due to the inclusion of a full year of depreciation expense associated with the refinery compared to eight months of expense in 2005, the BP stores acquired during 2005 and the Fast stores acquired in July 2006 which have no comparative depreciation in 2005.

During 2005, the sale of one convenience store, partially offset by the write-off of associated goodwill, netted a pre-tax gain of $1.6 million. There were no such sales or asset disposals in 2006.

During August and September 2005, we entered into forward fuel contracts to fix the purchase price of crude oil and sales price of finished grade fuel for a predetermined number of units at a future date, which had fulfillment terms of less than 60 days. We realized losses of $9.1 million during 2005, which were included as losses on forward contract activities. There were no forward contracts for fuel in 2006.

Interest expense was $24.2 million in 2006 compared to $17.4 million in 2005, an increase of $6.8 million. This increase was due to increased indebtedness associated with the acquisitions completed in 2006, a full year of interest

associated with acquisitions completed in 2005 and higher short-term interest rates. Interest income was $7.2 million for 2006 compared to $2.1 million for 2005, an increase of $5.1 million. This increase was due primarily to higher cash and short-term investment balances as a result of the refinery s favorable operations, as well as the proceeds received from our initial public offering in May 2006. Interest expense from related party notes payable for 2006 decreased to $1.0 million from $3.0 million in 2005. This decrease was due largely to the payment of all related party debt from proceeds received in our initial public offering in May 2006.

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Other operating expenses, net, were $0.2 million in 2006 and $2.5 million in 2005. In 2006, we recorded a $0.2 million expense in connection with guarantee fees payable to Delek Group Ltd. relating primarily to the guaranty of a portion of our debt incurred in connection with the acquisition of the Tyler refinery, compared to $0.6 million expense in 2005. These guarantees were eliminated during the second quarter of 2006. During the second quarter of 2005, we wrote off $3.5 million of deferred financing costs associated with the refinancing of a portion of our long-term debt. In 2006, we recognized only a nominal loss in the fair market value of our interest rate derivatives as compared to a $1.5 million gain for 2005.

Income tax expense was $44.0 million in 2006, compared to $34.9 million in 2005, an increase of $9.1 million. This increase primarily resulted from our higher taxable income in 2006 compared to 2005. Our effective tax rate was 32.1% for 2006, compared to 35.1% for 2005. Therefore, the increase in pre-tax income was partially offset by a decrease in our effective rate.

In 2006, we benefited from other tax incentives relating to our refinery operations. Substantially all of our refinery operations are conducted through a Texas limited partnership, which is not subject to Texas franchise tax. The limited partnership s 0.1% general partner was subject to Texas franchise tax on its 0.1% share of refining operations. Additionally, all other Texas activity, including the marketing segment, has occurred in a limited partnership entity, also not subject to Texas franchise tax. Accordingly, the effective tax rate applicable to the refining and marketing segments is the federal tax rate plus a nominal amount of state franchise tax. Consequently, our consolidated effective tax rate was reduced by their proportionate contribution to our consolidated pretax earnings. We benefited from other tax incentives related to its refinery operations. Specifically, we were entitled to the benefit of the domestic manufacturer s production deduction for federal tax purposes. Additionally, we were entitled to federal tax credits related to the production of ultra low sulfur diesel fuel. The combination of these two items further reduced our effective federal tax rate.

Operating Segments

We review operating results in three reportable segments: refining, marketing and retail. Our company was initially formed in May 2001 with the acquisition of 198 retail fuel and convenience stores from Williams Express, Inc., a subsidiary of The Williams Companies Inc. The refining segment was created in April 2005 with the acquisition of the Tyler refinery. Effective August 1, 2006, we added a third segment, marketing, to track the activity associated with the sales of refined products on a wholesale basis.

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Refining Segment

The table below sets forth information concerning our refinery segment operations for 2007, 2006 and 2005:

	Year Ended December 31,		
	2007	2006	2005
Days operated in period	365	365	247
Total sales volume (average barrels per day)(1)	54,282	56,074	51,096
Products manufactured (average barrels per day):			
Gasoline	29,660	30,163	26,927
Diesel/jet	20,010	21,816	20,779
Petrochemicals, LPG, NGLs	2,142	2,280	2,218
Other	2,848	2,324	1,684
Total production	54,660	56,583	51,608
Refinery throughput (average barrels per day):			
Crude oil	53,860	55,998	51,906
Other feedstocks	2,303	2,130	1,244
Total refinery throughput	56,163	58,128	53,150
Per barrel of sales:			
Refining operating margin(1)	$ 11.82	$ 11.00	$ 12.42
Refining operating margin excluding intercompany marketing fees(1)	12.56	11.16	12.42
Direct cash operating expenses(1)	4.15	3.51	3.76
Pricing statistics (average for the period presented):			
WTI Cushing crude oil (per barrel)	$ 72.44	$ 66.27	$ 59.39
U.S. Gulf Coast 5-3-2 crack spread (per barrel)	13.04	10.16	12.19
U.S. Gulf Coast unleaded gasoline (per gallon)	2.05	1.83	1.69
Low sulfur diesel (per gallon)	2.11	2.00	1.72
Ultra low sulfur diesel (per gallon)	2.14		
Natural gas (per MMBTU)	7.12	6.89	10.13

(1) Refinery segment operating results reflect certain reclassifications made to conform prior year balances to current year financial statement presentation. Sales of intermediate feedstock sales have been reclassified to net sales which had previously been presented on a net basis in cost of goods sold. Certain pipeline expenses previously presented in cost of goods sold have been reclassified to operating expenses, general and administrative expenses and depreciation. These reclassifications had no effect on either net income or shareholders equity, as previously reported.

Refining Segment Operational Comparison Of The Year Ended December 31, 2007 versus the Year Ended December 31, 2006

In the fiscal years ended December 31, 2007 and 2006, net sales for the refining segment were $1,694.3 million and $1,598.6 million, respectively, an increase of $95.7 million, or 6.0%. Total sales volume for 2007 averaged

54,282 barrels per day compared to 56,074 barrels per day in 2006. Our sales volume was negatively impacted by weather related power outages in the summer of 2007 as well as unplanned maintenance interruptions at the Tyler refinery which caused temporary product outages at the Tyler terminal. The average sales price was $85.52 per barrel in 2007 compared to $78.11 per barrel in 2006.

Cost of goods sold for our refining segment in 2007 was $1,460.2 million compared to $1,373.5 million in 2006, an increase of $86.7 million. This cost increase resulted from higher crude oil costs, partially offset by the reduction in sales volume. The average cost per barrel was $73.70 in 2007 compared to $67.11 in 2006.

In conjunction with the acquisition of the Pride assets and the formation of our marketing segment effective August 1, 2006, our refining segment entered into a service agreement with our marketing segment on October 1, 2006, which among other things, requires the refining segment to pay service fees based on the number of gallons sold at the Tyler refinery and to share with the marketing segment a portion of the marketing margin achieved in return for providing marketing, sales and customer services. This service agreement lowered the margin achieved by our refining segment in 2007 by $0.74 per barrel to $11.82 per barrel. Without this fee, the refining segment would have achieved a refining operating margin of $12.56 per barrel in 2007 compared to $11.16 per barrel in 2006. We eliminate this intercompany fee in consolidation.

Operating expenses were $82.2 million in 2007, or $4.15 per barrel sold, compared to $71.8 million in 2006, or $3.51 per barrel sold. The increase in operating expense primarily resulted from a $4.0 million increase in maintenance costs, a $3.3 million increase in environmental expenses and a $1.9 million increase in chemical usage related to operations, partially offset by the decrease in sales volume of 1,792 average barrels per day and a decrease in utility expense resulting from more favorable rates in 2007 compared to 2006. The increase in maintenance costs resulted from unplanned maintenance events in 2007 including power outages experienced prior to the commencement of operation of the 138kV power substation and costs related to the repair of a 300,000 barrel crude oil tank.

Contribution margin for the refining segment in 2007 was $151.9 million, or 62.2% of our consolidated contribution margin.

Refining Segment Operational Comparison Of The Year Ended December 31, 2006 versus the Year Ended December 31, 2005

In the fiscal years ended December 31, 2006 and 2005, net sales were $1,598.6 million and $930.5 million, respectively, an increase of $668.1 million or 71.8%. Of this total increase, $507.4 million resulted from the inclusion of a full year of sales from the Tyler refinery compared to only eight months in 2005. Additionally, total sales volume for 2006 averaged 56,074 barrels per day compared to 51,096 barrels per day for the eight months we operated the refinery in 2005, an increase of 4,978 average barrels per day or 8.9%. Average sales price per barrel rose to $78.11 per barrel for 2006 compared to $73.80 per barrel in 2005, an increase of 5.8%.

Cost of goods sold for our refining segment in 2006 was $1,373.5 million compared to $774.9 million for the period from April 29, 2005 through December 31, 2005. Of this increase, $436.0 million resulted from the inclusion of a full year of cost of goods sold from the refinery compared to only eight months in 2005. The remaining cost increase was due to an 8.9% increase in average barrels sold per day and a 9.8% increase in crude and feedstock cost per barrel in 2006 compared to the average barrels sold and cost per barrel for the eight months we operated the refinery in the same period in 2005.

The service agreement between the refining and marketing segments lowered the refining margin achieved by our refining segment by $0.16 per barrel in 2006 to $11.00 per barrel. Without this fee, the refining segment would have achieved a refining operating margin of $11.16 per barrel in 2006 compared to $12.42 per barrel for the period operated in 2005. We eliminate this intercompany fee in consolidation.

Operating expenses were $71.8 million for 2006, or $3.51 per barrel sold, compared to $47.3 million for the period of April 29, 2005 through December 31, 2005, or $3.76 per barrel sold. The reduction in operating expense per barrel was primarily due to lower natural gas costs which averaged $6.89 per MMBTU in 2006 compared to $10.13 per

MMBTU during the time we operated the refinery in 2005.

Contribution margin for the refining segment in 2006 was $153.2 million, or 70.9% of our consolidated segment contribution margin.

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Marketing Segment

We initiated operations in our marketing segment effective August 1, 2006 with the acquisition of the Pride assets. In this segment, we sell refined products on a wholesale basis in west Texas through company-owned and third-party operated terminals.

The table below sets forth certain information concerning our marketing segment for the full year ended December 31, 2007 and for the period since its formation on August 1, 2006 through December 31, 2006:

	Year Ended December 31, 2007	For the Period August 1, 2006 Through December 31, 2006
Days operated in period	365	153
Total sales volume (average barrels per day)	17,923	17,758
Products sold (average barrels per day):		
Gasoline	8,166	8,129
Diesel/jet	9,651	9,568
Other	106	61
Total sales	17,923	17,758
Direct operating expenses (per barrel of sales)	$ 0.15	$ 0.12

Marketing Segment Operational Comparison Of The Year Ended December 31, 2007 versus the Year Ended December 31, 2006

Net sales for the marketing segment were $626.6 million in 2007. Net sales for the marketing segment were $221.6 million for the period from August 1, 2006 through December 31, 2006. Total sales volume averaged 17,923 barrels per day in 2007 and 17,758 barrels per day in the 2006 period. Net sales included $14.7 million of service fees paid by our refining segment to our marketing segment in 2007 and $3.4 million paid during the 2006 period. These service fees are based on the number of gallons sold and a shared portion of the margin achieved in return for providing marketing, sales and customer support services.

Cost of goods sold was $596.9 million in 2007, or $91.24 per barrel sold of $91.24. Cost of goods sold was $216.0 million in the 2006 period, or $79.49 per barrel sold. Average gross margin was $4.54 and $2.06 per barrel in 2007 and the 2006 period, respectively. We recognized a gain in 2007 of $0.6 million and a loss of $1.3 million in the 2006 period associated with the settlement of nomination differences under long-term purchase contracts. In the 2006 period, we also incurred a loss of $2.7 million associated with the purchase of initial inventory which required payment at a spot price rather than more favorable terms under our long-term purchase contracts, and which then had an immediate drop in market value prior to the ultimate sale of such inventory.

Operating expenses in the marketing segment were $1.0 million in 2007 and $0.3 million in the 2006 period. These costs primarily relate to salaries, utilities and insurance costs.

Contribution margin for the marketing segment in 2007 was $28.7 million, or 11.8% of our consolidated segment contribution margin.

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Retail Segment

The table below sets forth information concerning our retail segment operations for the last three years:

	Year Ended December 31,		
	2007	**2006**	**2005**
Number of stores (end of period)	497	394	349
Average number of stores	470	369	330
Retail fuel sales (thousands of gallons)	474,154	396,867	341,335
Average retail gallons per average number of stores (in thousands)	1,009	1,075	