

HOLLY CORP
Form 10-Q
August 10, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-3876

HOLLY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

75-1056913

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

100 Crescent Court, Suite 1600
Dallas, Texas

75201-6915

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (214) 871-3555

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

50,244,495 shares of Common Stock, par value \$.01 per share, were outstanding on July 31, 2009.

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PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

References herein to Holly Corporation include Holly Corporation and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission's (SEC) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we, our, ours and us refer only to Holly Corporation and its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person with certain exceptions. For periods prior to our reconsolidation of Holly Energy Partners, L.P. (HEP) effective March 1, 2008, the words we, our, ours and us exclude HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation. Our consolidated financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of Holly Corporation. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under Results of Operations, Liquidity and Capital Resources and Risk Management in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I and those in Item 1 Legal Proceedings in Part II, are forward-looking statements. These statements are based on management's beliefs and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that our expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors, including, but not limited to:

- risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;

- the demand for and supply of crude oil and refined products;

- the spread between market prices for refined products and market prices for crude oil;

- the possibility of constraints on the transportation of refined products;

- the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;

- effects of governmental and environmental regulations and policies;

- the availability and cost of our financing;

- the effectiveness of our capital investments and marketing strategies;

- our efficiency in carrying out construction projects;

- our ability to acquire refined product operations or pipeline and terminal operations on acceptable terms and to integrate any future acquired operations;

- our ability to successfully integrate the operations of the Tulsa Refinery into our business;

- the possibility of terrorist attacks and the consequences of any such attacks;

- general economic conditions; and

other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation in conjunction with the forward-looking statements included in this Form 10-Q that are referred to above. This summary discussion should be read in conjunction with the discussion of risk factors and other cautionary statements under the heading Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 and in conjunction with the discussion in this Form 10-Q in Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings Liquidity and Capital Resources. All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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DEFINITIONS

Within this report, the following terms have these specific meanings:

Alkylation means the reaction of propylene or butylene (olefins) with isobutane to form an iso-paraffinic gasoline (inverse of cracking).

BPD means the number of barrels per calendar day of crude oil or petroleum products.

BPSD means the number of barrels per stream day (barrels of capacity in a 24 hour period) of crude oil or petroleum products.

Black wax crude oil is a low sulfur, low gravity crude oil produced in the Uintah Basin in Eastern Utah that has certain characteristics that require specific facilities to transport, store and refine into transportation fuels.

Catalytic reforming means a refinery process which uses a precious metal (such as platinum) based catalyst to convert low octane naphtha to high octane gasoline blendstock and hydrogen. The hydrogen produced from the reforming process is used to desulfurize other refinery oils and is the main source of hydrogen for the refinery.

Cracking means the process of breaking down larger, heavier and more complex hydrocarbon molecules into simpler and lighter molecules.

Crude distillation means the process of distilling vapor from liquid crudes, usually by heating, and condensing slightly above atmospheric pressure the vapor back to liquid in order to purify, fractionate or form the desired products.

Ethanol means a high octane gasoline blend stock that is used to make various grades of gasoline.

FCC, or fluid catalytic cracking, means a refinery process that breaks down large complex hydrocarbon molecules into smaller more useful ones using a circulating bed of catalyst at relatively high temperatures.

Hydrocracker means a refinery unit that breaks down large complex hydrocarbon molecules into smaller more useful ones using a fixed bed of catalyst at high pressure and temperature with hydrogen.

Hydrodesulfurization means to remove sulfur and nitrogen compounds from oil or gas in the presence of hydrogen and a catalyst at relatively high temperatures.

Hydrogen plant means a refinery unit that converts natural gas and steam to high purity hydrogen, which is then used in the hydrodesulfurization, hydrocracking and isomerization processes.

HF alkylation, or hydrofluoric alkylation, means a refinery process which combines isobutane and C3/C4 olefins using HF acid as a catalyst to make high octane gasoline blend stock.

Isomerization means a refinery process for rearranging the structure of C5/C6 molecules without changing their size or chemical composition and is used to improve the octane of C5/C6 gasoline blendstocks.

LPG means liquid petroleum gases.

LSG, or low sulfur gasoline, means gasoline that contains less than 30 PPM of total sulfur.

Lubricant means a solvent neutral paraffinic product used in passenger and commercial vehicle engine oils, specialty products for metalworking or heat transfer applications and other industrial applications.

MMSCFD means one million standard cubic feet per day.

MTBE means methyl tertiary butyl ether, a high octane gasoline blend stock that is used to make various grades of gasoline.

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Natural gasoline means a low octane gasoline blend stock that is purchased and used to blend with other high octane stocks produced to make various grades of gasoline.

PPM means parts-per-million.

Refinery gross margin means the difference between average net sales price and average costs of products per barrel of produced refined products. This does not include the associated depreciation and amortization costs.

Reforming means the process of converting gasoline type molecules into aromatic, higher octane gasoline blend stocks while producing hydrogen in the process.

ROSE, or Solvent deasphalter / residuum oil supercritical extraction, means a refinery unit that uses a light hydrocarbon like propane or butane to extract non-asphaltene heavy oils from asphalt or atmospheric reduced crude. These deasphalted oils are then further converted to gasoline and diesel in the FCC process. The remaining asphaltenes are either sold, blended to fuel oil or blended with other asphalt as a hardener.

Sour crude oil means crude oil containing quantities of sulfur greater than 0.4 percent by weight, while **Sweet crude oil** means crude oil containing quantities of sulfur equal to or less than 0.4 percent by weight.

ULSD, or ultra low sulfur diesel, means diesel fuel that contains less than 15 PPM of total sulfur.

Vacuum distillation means the process of distilling vapor from liquid crudes, usually by heating, and condensing below atmospheric pressure the vapor back to liquid in order to purify, fractionate or form the desired products.

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CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 108,688	\$ 40,805
Marketable securities	791	49,194
Accounts receivable: Product and transportation	240,644	128,337
Crude oil resales	364,056	161,427
	604,700	289,764
Inventories: Crude oil and refined products	238,405	107,811
Materials and supplies	25,643	17,924
	264,048	125,735
Income taxes receivable	5,841	6,350
Prepayments and other	26,389	18,775
Total current assets	1,010,457	530,623
Properties, plants and equipment, at cost	1,764,456	1,509,701
Less accumulated depreciation	(339,256)	(304,379)
	1,425,200	1,205,322
Marketable securities (long-term)		6,009
Other assets: Turnaround costs	59,913	34,309
Goodwill	27,542	27,542
Intangibles and other	98,329	70,420
	185,784	132,271
Total assets	\$ 2,621,441	\$ 1,874,225
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 804,619	\$ 391,142

Accrued liabilities	46,471	42,016
Short-term debt Holly Energy Partners		29,000
Total current liabilities	851,090	462,158
Long-term debt Holly Corporation	187,964	
Long-term debt Holly Energy Partners	390,056	341,914
Deferred income taxes	88,404	69,491
Other long-term liabilities	77,358	64,330
Equity:		
Holly Corporation stockholders' equity:		
Preferred stock, \$1.00 par value 1,000,000 shares authorized; none issued		
Common stock \$.01 par value 160,000,000 shares authorized; 73,569,851 and 73,543,873 shares issued as of June 30, 2009 and December 31, 2008, respectively	738	735
Additional capital	121,818	121,298
Retained earnings	1,166,883	1,145,388
Accumulated other comprehensive loss	(33,929)	(35,081)
Common stock held in treasury, at cost 23,325,356 and 23,600,653 shares as of June 30, 2009 and December 31, 2008, respectively	(685,931)	(690,800)
Total Holly Corporation stockholders' equity	569,579	541,540
Noncontrolling interest	456,990	394,792
Total equity	1,026,569	936,332
Total liabilities and equity	\$ 2,621,441	\$ 1,874,225

See accompanying notes.

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HOLLY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales and other revenues	\$ 1,038,381	\$ 1,743,822	\$ 1,689,204	\$ 3,223,806
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	879,926	1,620,550	1,391,580	3,003,987
Operating expenses (exclusive of depreciation and amortization)	78,508	74,175	145,710	134,883
General and administrative expenses (exclusive of depreciation and amortization)	15,108	12,942	26,855	25,879
Depreciation and amortization	25,500	15,929	45,821	29,238
Total operating costs and expenses	999,042	1,723,596	1,609,966	3,193,987
Income from operations	39,339	20,226	79,238	29,819
Other income (expense):				
Equity in earnings of SLC Pipeline	488		663	
Interest income	134	3,826	2,330	7,381
Interest expense	(7,205)	(6,251)	(13,444)	(8,243)
Tulsa Refinery acquisition costs	(1,610)		(1,610)	
Equity in earnings of Holly Energy Partners				2,990
	(8,193)	(2,425)	(12,061)	2,128
Income before income taxes	31,146	17,801	67,177	31,947
Income tax provision:				
Current	(6,635)	(877)	3,525	5,441
Deferred	16,210	6,733	18,181	5,110
	9,575	5,856	21,706	10,551
Net income	21,571	11,945	45,471	21,396
Less net income attributable to noncontrolling interest	6,966	493	8,921	1,295
	\$ 14,605	\$ 11,452	\$ 36,550	\$ 20,101

**Net income attributable to Holly Corporation
stockholders**

Net income per share attributable to Holly Corporation stockholders basic	\$	0.29	\$	0.23	\$	0.73	\$	0.40
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Net income per share attributable to Holly Corporation stockholders diluted	\$	0.29	\$	0.23	\$	0.73	\$	0.39
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Cash dividends declared per common share	\$	0.15	\$	0.15	\$	0.30	\$	0.30
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**Average number of common shares
outstanding:**

Basic	50,170	50,158	50,106	50,654
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Diluted	50,226	50,515	50,189	51,015
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See accompanying notes.

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HOLLY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 45,471	\$ 21,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,821	29,238
Equity in earnings of SLC Pipeline	(598)	
Change in fair value interest rate swaps	(628)	
Deferred income taxes	18,181	5,110
Equity based compensation expense	4,337	2,695
Distributions in excess of equity in earnings of Holly Energy Partners		3,067
(Increase) decrease in current assets:		
Accounts receivable	(316,436)	(221,285)
Inventories	(39,579)	(18,649)
Income taxes receivable	509	6,323
Prepayments and other	(7,614)	737
Increase (decrease) in current liabilities:		
Accounts payable	413,420	296,611
Accrued liabilities	383	(8,107)
Turnaround expenditures	(31,069)	(3,390)
Other, net	9,352	867
Net cash provided by operating activities	141,550	114,613
Cash flows from investing activities:		
Additions to properties, plants and equipment Holly Corporation	(127,367)	(186,582)
Additions to properties, plants and equipment Holly Energy Partners	(56,026)	(12,202)
Acquisition of Tulsa Refinery Holly Corporation	(157,814)	
Investment in SLC Pipeline Holly Energy Partners	(25,500)	
Purchases of marketable securities	(165,892)	(303,257)
Sales and maturities of marketable securities	220,281	395,520
Proceeds from sale of crude pipeline and tankage assets		171,000
Increase in cash due to consolidation of Holly Energy Partners		7,295
Investment in Holly Energy Partners		(290)
Net cash provided by (used for) investing activities	(312,318)	71,484
Cash flows from financing activities:		
Proceeds from issuance of senior notes Holly Corporation	187,925	
Proceeds from issuance of common units Holly Energy Partners	58,355	
Borrowings under credit agreement Holly Corporation	94,000	
Repayments under credit agreement Holly Corporation	(94,000)	
Borrowings under credit agreement Holly Energy Partners	99,000	40,000

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Repayments under credit agreement Holly Energy Partners	(81,000)	(20,000)
Dividends	(15,022)	(14,055)
Distributions to noncontrolling interest	(14,529)	(7,577)
Purchase of treasury stock	(1,214)	(136,876)
Contribution from joint venture partner	8,950	10,000
Excess tax benefit from equity based compensation	2,110	3,436
Deferred financing costs	(5,193)	(365)
Other	(731)	(258)
Net cash provided by (used for) financing activities	238,651	(125,695)
Cash and cash equivalents:		
Increase for the period	67,883	60,402
Beginning of period	40,805	94,369
End of period	\$ 108,688	\$ 154,771
Supplemental disclosure of cash flow information:		
Cash paid during the period for		
Interest	\$ 13,008	\$ 6,489
Income taxes	\$ 11,929	\$ 3,993
See accompanying notes.		

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HOLLY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 21,571	\$ 11,945	\$ 45,471	\$ 21,396
Other comprehensive income (loss):				
Securities available for sale:				
Unrealized gain (loss) on available-for-sale securities	205	501	(258)	1,327
Reclassification adjustment to net income on sale of marketable securities		(32)	236	(1,339)
Total unrealized gain (loss) on available-for-sale securities	205	469	(22)	(12)
Other comprehensive income of Holly Energy Partners:				
Change in fair value of cash flow hedge	4,417	6,797	4,167	2,448
Other comprehensive income before income taxes	4,622	7,266	4,145	2,436
Income tax expense	866	1,273	733	388
Other comprehensive income	3,756	5,993	3,412	2,048
Total comprehensive income	25,327	17,938	48,883	23,444
Less comprehensive income attributable to noncontrolling interest	9,362	4,180	11,181	2,623