

HOLLY CORP  
Form 10-Q  
August 06, 2010

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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, 2010**

**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

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

53,210,016 shares of Common Stock, par value \$.01 per share, were outstanding on July 30, 2010.

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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 where there are transactions or obligations between Holly Energy Partners, L.P. (HEP) and Holly Corporation or its other subsidiaries. For periods after our reconsolidation of HEP effective March 1, 2008, the words we, our, ours and us generally include HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation with certain exceptions where there are transactions or obligations between HEP and Holly Corporation or its other subsidiaries. This document contains 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 existing or future acquired operations;

- 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, 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, 2009 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 heading "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).

**Aromatic oil** is long chain oil that is highly aromatic in nature that is used to manufacture tires and in the production of asphalt.

**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 primary 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.

**Delayed coker unit** is a refinery unit that removes carbon from the bottom cuts of crude oil to produce unfinished light transportation fuels and petroleum coke.

**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.

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**Lube extraction unit** is a unit used in the lube process that separates aromatic oils from paraffinic oils using furfural as a solvent.

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

**MEK** means a lube process that separates waxy oil from non-waxy oils using methyl ethyl ketone as a solvent.

**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.

**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.

**Paraffinic oil** is a high paraffinic, high gravity oil produced by extracting aromatic oil and waxes from gas oil and is used in producing high-grade lubricating oils.

**Refinery gross margin** means the difference between average net sales price and average product costs per produced barrel of refined products sold. 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.

**Roofing flux** is produced from the bottom cut of crude oil and is the base oil used to make roofing shingles for the housing industry.

**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.

**Scanfiner** is a refinery unit that removes sulfur from gasoline to produce low sulfur gasoline blendstock.

**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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**HOLLY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents <i>(HEP: \$2,806 and \$2,508, respectively)</i>	\$ 140,212	\$ 124,596
Marketable securities	1,216	1,223
Accounts receivable: Product and transportation <i>(HEP: \$23,089 and \$18,767, respectively)</i>	299,209	292,310
Crude oil resales	463,560	470,145
	762,769	762,455
Inventories: Crude oil and refined products	375,555	259,582
Materials and supplies <i>(HEP: \$182 and \$165, respectively )</i>	45,591	43,931
	421,146	303,513
Income taxes receivable		38,072
Prepayments and other <i>(HEP: \$757 and \$574, respectively)</i>	59,785	50,957
Current assets of discontinued operations <i>(HEP: \$2,195)</i>		2,195
<b>Total current assets</b>	<b>1,385,128</b>	<b>1,283,011</b>
Properties, plants and equipment, at cost <i>(HEP: \$535,436 and \$491,999, respectively)</i>	2,081,558	2,001,855
Less accumulated depreciation <i>(HEP: \$(46,374) and \$(33,478), respectively)</i>	(411,913)	(371,885)
	1,669,645	1,629,970
Other assets: Turnaround costs	52,820	53,463
Goodwill <i>(HEP: \$81,602 and \$81,602)</i>	81,602	81,602
Intangibles and other <i>(HEP: \$74,057 and \$77,443, respectively)</i>	94,384	97,893
	228,806	232,958
<b>Total assets</b>	<b>\$ 3,283,579</b>	<b>\$ 3,145,939</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable <i>(HEP: \$6,340 and \$6,211, respectively)</i>	\$ 1,010,097	\$ 975,155

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Accrued liabilities ( <i>HEP: \$20,203 and \$13,594, respectively</i> )	55,398	49,957
<b>Total current liabilities</b>	<b>1,065,495</b>	<b>1,025,112</b>
Long-term debt ( <i>HEP: \$476,976 and \$379,198, respectively</i> )	805,336	707,458
Deferred income taxes	107,783	124,585
Other long-term liabilities ( <i>HEP: \$11,984 and \$12,349, respectively</i> )	84,209	81,003
<b>Equity:</b>		
<b>Holly Corporation stockholders equity:</b>		
Preferred stock, \$1.00 par value - 1,000,000 shares authorized; none issued		
Common stock \$.01 par value - 160,000,000 shares authorized; 76,346,432 and 76,359,006 shares issued as of June 30, 2010 and December 31, 2009, respectively	764	764
Additional capital	189,267	195,565
Retained earnings	1,156,427	1,134,341
Accumulated other comprehensive loss	(25,483)	(25,700)
Common stock held in treasury, at cost - 23,136,416 and 23,292,737 shares as of June 30, 2010 and December 31, 2009, respectively	(678,092)	(685,931)
<b>Total Holly Corporation stockholders equity</b>	<b>642,883</b>	<b>619,039</b>
<b>Noncontrolling interest</b>	<b>577,873</b>	<b>588,742</b>
<b>Total equity</b>	<b>1,220,756</b>	<b>1,207,781</b>
<b>Total liabilities and equity</b>	<b>\$ 3,283,579</b>	<b>\$ 3,145,939</b>

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. ( HEP ) as of June 30, 2010 and December 31, 2009. HEP is a consolidated variable interest entity.

See accompanying notes.

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**HOLLY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except per share data)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Sales and other revenues</b>	\$ 2,145,860	\$ 1,035,778	\$ 4,020,150	\$ 1,683,808
<b>Operating costs and expenses:</b>				
Cost of products sold (exclusive of depreciation and amortization)	1,848,212	879,926	3,572,076	1,391,580
Operating expenses (exclusive of depreciation and amortization)	120,831	78,053	248,375	144,801
General and administrative expenses (exclusive of depreciation and amortization)	15,829	15,088	33,698	26,844
Depreciation and amortization	28,824	25,260	56,581	45,341
<b>Total operating costs and expenses</b>	2,013,696	998,327	3,910,730	1,608,566
<b>Income from operations</b>	132,164	37,451	109,420	75,242
<b>Other income (expense):</b>				
Equity in earnings of SLC Pipeline	544	488	1,025	663
Interest income	635	134	694	2,330
Interest expense	(21,023)	(7,203)	(38,745)	(13,442)
Tulsa Refinery acquisition costs		(1,610)		(1,610)
	(19,844)	(8,191)	(37,026)	(12,059)
<b>Income from continuing operations before income taxes</b>	112,320	29,260	72,394	63,183
Income tax provision:				
Current	34,561	(6,888)	39,922	2,990
Deferred	5,093	16,210	(16,940)	18,181
	39,654	9,322	22,982	21,171
<b>Income from continuing operations</b>	72,666	19,938	49,412	42,012
<b>Income from discontinued operations, net of taxes of \$253 and \$536, respectively</b>		1,206		2,537
<b>Net income</b>	72,666	21,144	49,412	44,549

Less net income attributable to noncontrolling interest	6,504	6,539	11,344	7,999
<b>Net income attributable to Holly Corporation stockholders</b>	<b>\$ 66,162</b>	<b>\$ 14,605</b>	<b>\$ 38,068</b>	<b>\$ 36,550</b>
<b>Earnings attributable to Holly Corporation stockholders:</b>				
Income from continuing operations	\$ 66,162	\$ 14,248	\$ 38,068	\$ 35,801
Income from discontinued operations		357		749
Net income	\$ 66,162	\$ 14,605	\$ 38,068	\$ 36,550
<b>Earnings per share attributable to Holly Corporation stockholders basic:</b>				
Income from continuing operations	\$ 1.24	\$ 0.28	\$ 0.72	\$ 0.71
Income from discontinued operations		0.01		0.02
Net income	\$ 1.24	\$ 0.29	\$ 0.72	\$ 0.73
<b>Earnings per share attributable to Holly Corporation stockholders diluted:</b>				
Income from continuing operations	\$ 1.24	\$ 0.28	\$ 0.71	\$ 0.71
Income from discontinued operations		0.01		0.02
Net income	\$ 1.24	\$ 0.29	\$ 0.71	\$ 0.73
<b>Cash dividends declared per common share</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.30</b>	<b>\$ 0.30</b>
<b>Average number of common shares outstanding:</b>				
Basic	53,206	50,170	53,152	50,106
Diluted	53,408	50,226	53,375	50,189
See accompanying notes.				

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009 <sup>(1)</sup></b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 49,412	\$ 44,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	56,581	45,821
SLC Pipeline earnings, net of distributions	100	(598)
Deferred income taxes	(16,940)	18,181
Equity based compensation expense	5,440	4,337
Change in fair value interest rate swaps	1,464	(628)
Noncontrolling interest in earnings of Rio Grande Pipeline Company		922
(Increase) decrease in current assets:		
Accounts receivable	(314)	(316,436)
Inventories	(117,633)	(39,579)
Income taxes receivable	38,072	509
Prepayments and other	(16,828)	(7,614)
Current assets of discontinued operations	2,195	
Increase (decrease) in current liabilities:		
Accounts payable	34,863	413,420
Accrued liabilities	5,441	383
Turnaround expenditures	(8,723)	(31,069)
Other, net	5,216	9,352
<b>Net cash provided by operating activities</b>	<b>38,346</b>	<b>141,550</b>
<b>Cash flows from investing activities:</b>		
Additions to properties, plants and equipment Holly Corporation	(72,043)	(127,367)
Additions to properties, plants and equipment Holly Energy Partners	(4,487)	(56,026)
Acquisition of Tulsa Refinery west facility Holly Corporation		(157,814)
Investment in SLC Pipeline Holly Energy Partners		(25,500)
Purchases of marketable securities		(165,892)
Sales and maturities of marketable securities		220,281
<b>Net cash used for investing activities</b>	<b>(76,530)</b>	<b>(312,318)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under credit agreement Holly Corporation	310,000	94,000
Repayments under credit agreement Holly Corporation	(310,000)	(94,000)
Borrowings under credit agreement Holly Energy Partners	39,000	99,000
Repayments under credit agreement Holly Energy Partners	(90,000)	(81,000)
Proceeds from issuance of senior notes Holly Corporation		187,925
Proceeds from issuance of senior notes Holly Energy Partners	147,540	
Proceeds from issuance of common units Holly Energy Partners		58,355

Repayments under financing obligation	Holly Corporation	(415)	
Purchase of treasury stock		(1,308)	(1,214)
Contribution from joint venture partner		5,000	8,950
Dividends		(15,901)	(15,022)
Distributions to noncontrolling interest		(23,933)	(14,529)
Excess tax benefit (expense) from equity based compensation		(1,313)	2,110
Purchase of units for restricted grants	Holly Energy Partners	(2,276)	(616)
Deferred financing costs		(2,655)	(5,193)
Other		61	(115)
<b>Net cash provided by financing activities</b>		<b>53,800</b>	<b>238,651</b>
<b>Cash and cash equivalents:</b>			
<b>Increase for the period</b>		<b>15,616</b>	<b>67,883</b>
Beginning of period		124,596	40,805
<b>End of period</b>		<b>\$ 140,212</b>	<b>\$ 108,688</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the period for:			
Interest		\$ 31,449	\$ 13,008
Income taxes		\$ 1,043	\$ 11,929

(1) Includes cash flows attributable to discontinued operations.  
See accompanying notes.

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**HOLLY CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(In thousands)