

HollyFrontier Corp
Form 10-Q
May 08, 2013

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 March 31, 2013
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

HOLLYFRONTIER 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.)

2828 N. Harwood, Suite 1300 75201
Dallas, Texas (Zip Code)
(Address of principal executive offices)
(214) 871-3555
Registrant's telephone number, including area code

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.

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

203,105,789 shares of Common Stock, par value \$.01 per share, were outstanding on April 30, 2013.

Table of Content

HOLLYFRONTIER CORPORATION
INDEX

	Page
<u>Forward-Looking Statements</u>	<u>3</u>
 <u>PART I. FINANCIAL INFORMATION</u>	
<u>Definitions</u>	<u>4</u>
 <u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets</u> <u>March 31, 2013 (Unaudited) and December 31, 2012</u>	<u>6</u>
<u>Consolidated Statements of Income (Unaudited)</u> <u>Three Months Ended March 31, 2013 and 2012</u>	<u>7</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three Months Ended March 31, 2013 and 2012</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>Three Months Ended March 31, 2013 and 2012</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>10</u>
 <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	 <u>34</u>
 <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	 <u>47</u>
 <u>Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles</u>	 <u>47</u>
 <u>Item 4. Controls and Procedures</u>	 <u>50</u>
 <u>PART II. OTHER INFORMATION</u>	
 <u>Item 1. Legal Proceedings</u>	 <u>51</u>
 <u>Item 1A. Risk Factors</u>	 <u>51</u>
 <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	 <u>52</u>
 <u>Item 6. Exhibits</u>	 <u>52</u>
 <u>Signatures</u>	 <u>53</u>
 <u>Index to Exhibits</u>	 <u>54</u>

Table of Content

FORWARD-LOOKING STATEMENTS

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier 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 HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier 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 HollyFrontier. 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 Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those in Part II, Item 1 “Legal Proceedings” 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 SEC 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 that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material 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, 2012 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.

Table of Content

PART I. FINANCIAL INFORMATION

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.

“Biodiesel” means a clean alternative fuel produced from renewable biological resources.

“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 a 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 the vapor slightly above atmospheric pressure turning it 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.

“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.

“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 and other industrial applications.

“MSAT2” means Control of Hazardous Air Pollutants from Mobile Sources, a rule issued by the U.S. Environmental Protection Agency to reduce hazardous emissions from motor vehicles and motor vehicle fuels.

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

Table of Content

“MMBTU” means one million British thermal units.

“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.

“Paraffinic oil” is a high paraffinic, high gravity oil produced by extracting aromatic oils 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.

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

“WCS” means Western Canada Select crude oil and is made up of Canadian heavy conventional and bitumen crude oils blended with sweet synthetic and condensate diluents.

“WTI” means West Texas Intermediate and is a grade of crude oil used as a common benchmark in oil pricing. WTI is a sweet crude oil and has a relatively low density.

“WTS” means West Texas Sour, a medium sour crude oil.

Table of Content

Item 1. Financial Statements

HOLLYFRONTIER CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: \$18,193 and \$5,237, respectively)	\$1,872,442	\$1,757,699
Marketable securities	665,694	630,586
Accounts receivable: Product and transportation (HEP: \$37,129 and \$38,097, respectively)	599,669	587,728
Crude oil resales	56,855	46,502
	656,524	634,230
Inventories: Crude oil and refined products	1,398,769	1,238,678
Materials, supplies and other (HEP: \$1,491 and \$1,259, respectively)	72,031	80,954
	1,470,800	1,319,632
Income taxes receivable	37,904	74,957
Prepayments and other (HEP: \$1,984 and \$2,360, respectively)	59,946	53,161
Total current assets	4,763,310	4,470,265
Properties, plants and equipment, at cost (HEP: \$1,158,287 and \$1,155,710, respectively)	4,008,803	3,943,114
Less accumulated depreciation (HEP: \$(152,710) and \$(141,154), respectively)	(794,605)	(748,414)
	3,214,198	3,194,700
Marketable securities (long-term)	5,000	5,116
Other assets: Turnaround costs	197,356	151,764
Goodwill (HEP: \$288,991 and \$288,991, respectively)	2,338,302	2,338,302
Intangibles and other (HEP: \$75,007 and \$76,300, respectively)	178,006	168,850
	2,713,664	2,658,916
Total assets	\$10,696,172	\$10,328,997
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: \$12,346 and \$12,030, respectively)	\$1,339,419	\$1,314,151
Income taxes payable	151,403	—
Accrued liabilities (HEP: \$14,135 and \$23,705, respectively)	127,005	195,077
Deferred income tax liabilities	149,127	145,216
Total current liabilities	1,766,954	1,654,444
Long-term debt (HEP: \$811,913 and \$864,673, respectively)	1,283,245	1,336,238
Deferred income taxes (HEP: \$4,951 and \$4,951, respectively)	554,102	