

HollyFrontier Corp
Form 10-Q
November 05, 2014

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 September 30, 2014
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 (State or other jurisdiction of incorporation or organization)	75-1056913 (I.R.S. Employer Identification No.)
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2828 N. Harwood, Suite 1300 Dallas, Texas (Address of principal executive offices) (214) 871-3555 (Registrant's telephone number, including area code)	75201 (Zip Code)
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(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

195,735,991 shares of Common Stock, par value \$.01 per share, were outstanding on October 31, 2014.

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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, 2013 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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PART I. FINANCIAL INFORMATION

DEFINITIONS

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

“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.

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

“Crude oil 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.

“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 commercial heavy duty engine oils, passenger car oils and specialty products for industrial applications such as heat transfer, metalworking, rubber and other general process oil.

“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.

“MMBTU” means one million British thermal units.

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“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.

“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.

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Item 1. Financial Statements

HOLLYFRONTIER CORPORATION
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: \$1,667 and \$6,352, respectively)	\$856,026	\$940,103
Marketable securities	623,480	725,160
Total cash, cash equivalents and short-term marketable securities	1,479,506	1,665,263
Accounts receivable: Product and transportation (HEP: \$35,972 and \$34,736, respectively)	627,846	665,098
Crude oil resales	62,405	43,704
	690,251	708,802
Inventories: Crude oil and refined products	1,491,318	1,241,448
Materials, supplies and other (HEP: \$1,793 and \$1,591, respectively)	88,147	112,799
	1,579,465	1,354,247
Income taxes receivable	32,888	109,376
Prepayments and other (HEP: \$2,626 and \$2,283, respectively)	111,623	58,756
Total current assets	3,893,733	3,896,444
Properties, plants and equipment, at cost (HEP: \$1,252,071 and \$1,199,594, respectively)	4,680,470	4,343,857
Less accumulated depreciation (HEP: \$(235,848) and \$(194,619), respectively)	(1,120,205)	(949,261)
	3,560,265	3,394,596
Other assets: Turnaround costs	217,796	258,436
Goodwill (HEP: \$288,991 and \$288,991, respectively)	2,331,781	2,331,922
Intangibles and other (HEP: \$71,508 and \$74,979, respectively)	178,195	175,341
	2,727,772	2,765,699
Total assets	\$10,181,770	\$10,056,739
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: \$15,084 and \$22,898, respectively)	\$1,441,115	\$1,325,376
Accrued liabilities (HEP: \$25,426 and \$28,668, respectively)	122,933	125,115
Deferred income tax liabilities	222,701	223,999
Total current liabilities	1,786,749	1,674,490
Long-term debt (HEP: \$851,416 and \$807,630, respectively)	1,039,396	997,519
Deferred income taxes (HEP: \$5,311 and \$5,287, respectively)	659,666	616,842
Other long-term liabilities (HEP: \$39,446 and \$35,918, respectively)	135,111	158,490
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, \$1.00 par value – 5,000,000 shares authorized; none issued	—	—
Common stock \$.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of September 30, 2014 and December 31, 2013	2,560	2,560

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Additional capital	4,011,375	3,990,630
Retained earnings	3,162,173	3,144,480
Accumulated other comprehensive income	70,011	822
Common stock held in treasury, at cost – 59,764,477 and 57,132,515 shares as of September 30, 2014 and December 31, 2013, respectively	(1,271,962)	(1,138,872)
Total HollyFrontier stockholders' equity	5,974,157	5,999,620
Noncontrolling interest	586,691	609,778
Total equity	6,560,848	6,609,398
Total liabilities and equity	\$10,181,770	\$10,056,739

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of September 30, 2014 and December 31, 2013. HEP is a consolidated variable interest entity.

See accompanying notes.

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HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales and other revenues	\$5,317,555	\$5,327,122	\$15,481,208	\$15,333,759
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	4,625,893	4,809,990	13,439,359	13,059,333
Operating expenses (exclusive of depreciation and amortization)	280,957	256,318	826,577	798,959
General and administrative expenses (exclusive of depreciation and amortization)	27,149	28,937	82,437	92,135
Depreciation and amortization	80,945	82,127	262,883	224,381
Total operating costs and expenses	5,014,944	5,177,372	14,611,256	14,174,808
Income from operations	302,611	149,750	869,952	1,158,951
Other income (expense):				
Earnings (loss) of equity method investments	(1,247	) 159	(2,956	) (871
Interest income	1,004	1,482	3,593	3,791
Interest expense	(11,038	) (13,954	) (33,521	) (55,068
Loss on early extinguishment of debt	—	—	(7,677	) (22,109
Loss on sale of assets	(556	) —	(556) —
	(11,837	) (12,313	) (41,117	) (74,257
Income before income taxes	290,774	137,437	828,835	1,084,694
Income tax provision:				
Current	91,867	(10,454	) 294,331	339,612
Deferred	11,349	58,982	(2,169	) 47,053
	103,216	48,528	292,162	386,665
Net income	187,558	88,909	536,673	698,029
Less net income attributable to noncontrolling interest	12,552	6,619	33,177	25,089
Net income attributable to HollyFrontier stockholders	\$175,006	\$82,290	\$503,496	\$672,940
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$0.88	\$0.41	\$2.54	\$3.33
Diluted	\$0.88	\$0.41	\$2.53	\$3.33
Cash dividends declared per common share	\$0.82	\$0.80	\$2.44	\$2.40
Average number of common shares outstanding:				
Basic	197,261	199,098	197,895	201,109
Diluted	197,535	199,509	198,096	201,486

See accompanying notes.

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HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$187,558	\$88,909	\$536,673	\$698,029
Other comprehensive income:				
Securities available-for-sale:				
Unrealized gain (loss) on marketable securities	(153	) 44	(116	) 18
Reclassification adjustments to net income on sale or maturity of marketable securities	(12	) (10	) (13	) (13
Net unrealized gain (loss) on marketable securities	(165	) 34	(129	) 5
Hedging instruments:				
Change in fair value of cash flow hedging instruments	5,133	25,423	143,857	42,739
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(13,844	) (21,478	) (31,710	) 153
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	270	810	1,479
Net unrealized gain (loss) on hedging instruments	(8,441	) 4,215	112,957	44,371
Pension and other post-retirement benefit obligations:				
Pension plan loss reclassified to net income	—	—	—	28,986
Loss on post-retirement healthcare plan	—	—	(89) —
Post-retirement healthcare plan loss reclassified to net income	—	—	—	1,726
Retirement restoration plan loss reclassified to net income	422	—	422	—
Net change in pension and other post-retirement benefit obligations	422	—	333	30,712
Other comprehensive income (loss) before income taxes	(8,184	) 4,249	113,161	75,088
Income tax expense (benefit)	(3,428	) 1,946	43,694	28,421
Other comprehensive income (loss)	(4,756	) 2,303	69,467	46,667
Total comprehensive income	182,802	91,212	606,140	744,696
Less noncontrolling interest in comprehensive income	13,225	5,954	33,455	27,156
Comprehensive income attributable to HollyFrontier stockholders	\$169,577	\$85,258	\$572,685	\$717,540

See accompanying notes.

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HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$536,673	\$698,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	262,883	224,381
Net loss of equity method investments, inclusive of distributions	5,268	3,184
Loss on early extinguishment of debt attributable to unamortized discount	1,489	7,948
Loss on sale of assets	556	—
Deferred income taxes	(2,169)	) 47,053
Equity-based compensation expense	20,728	25,239
Change in fair value – derivative instruments	(12,199)	) (39,745)
(Increase) decrease in current assets:		
Accounts receivable	8,530	(110,402)
Inventories	(225,698)	) (228,541)
Income taxes receivable	76,488	670
Prepayments and other	24,719	18,983
Increase (decrease) in current liabilities:		
Accounts payable	109,912	298,916
Accrued liabilities	27,327	(7,888)
Turnaround expenditures	(32,236)	) (170,468)
Other, net	3,662	34,804
Net cash provided by operating activities	805,933	802,163
Cash flows from investing activities:		
Additions to properties, plants and equipment	(307,476)	) (255,090)
Additions to properties, plants and equipment – HEP	(61,657)	) (31,099)
Proceeds from sale of assets	14,711	5,802
Acquisition of trucking operations	—	(11,301)
Investment in Sabine Biofuels	(5,000)	) (3,000)
Net repayment from (advances to) Sabine Biofuels	10,021	(11,040)
Purchases of marketable securities	(762,224)	) (672,701)
Sales and maturities of marketable securities	863,769	646,301
Net cash used for investing activities	(247,856)	) (332,128)
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	538,600	256,500
Repayments under credit agreement – HEP	(346,600)	) (312,500)
Redemption of senior notes	—	(300,973)
Redemption of senior notes – HEP	(156,188)) —
Proceeds from sale of HEP common units	—	73,444
Proceeds from common unit offerings - HEP	—	73,444
Purchase of treasury stock	(133,150)) (184,947)
Dividends	(485,766)) (485,411)

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Distributions to noncontrolling interest	(58,473) (52,835)
Excess tax benefit from equity-based compensation	4,482	2,739)
Purchase of units for incentive grants – HEP	(1,064	) (3,379)
Deferred financing costs and other	(3,995	) 668)
Net cash used for financing activities	(642,154	) (933,250)