

Delek US Holdings, Inc.
Form 10-Q
November 07, 2008

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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 September 30, 2008
- 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 001-32868

DELEK US HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
Incorporation or organization)*

52-2319066

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

**7102 Commerce Way
Brentwood, Tennessee**

(Address of principal executive offices)

37027

(Zip Code)

(615) 771-6701

(Registrant's telephone number, including area code)

Not Applicable

(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 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):

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Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) Smaller reporting company

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

At October 31, 2008, there were 53,680,570 shares of common stock, \$0.01 par value, outstanding.

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Table of Contents**Part I.****FINANCIAL INFORMATION****Item 1. Financial Statements****Delek US Holdings, Inc.****Condensed Consolidated Balance Sheets (Unaudited)**

| | September 30, 2008 | December 31, 2007 |
|-----------------------------------------------------------------|-----------------------------------------------------------|------------------------------|
| | (In millions, except share and per share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 79.4 | \$ 105.0 |
| Short-term investments | | 44.4 |
| Accounts receivable | 148.0 | 118.8 |
| Inventory | 146.3 | 130.6 |
| Other current assets | 10.0 | 47.7 |
| Total current assets | 383.7 | 446.5 |
| Property, plant and equipment: | | |
| Property, plant and equipment | 733.5 | 644.3 |
| Less: accumulated depreciation | (124.9) | (98.2) |
| Property, plant and equipment, net | 608.6 | 546.1 |
| Goodwill | 91.6 | 89.0 |
| Other intangibles, net | 10.6 | 11.6 |
| Equity method investment | 131.6 | 139.5 |
| Other non-current assets | 16.6 | 11.6 |
| Total assets | \$ 1,242.7 | \$ 1,244.3 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 287.4 | \$ 248.6 |
| Current portion of long-term debt and capital lease obligations | 61.6 | 10.8 |
| Note payable | 45.0 | |
| Accrued expenses and other current liabilities | 73.0 | 45.6 |

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| | | |
|--------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Total current liabilities | 467.0 | 305.0 |
| Non-current liabilities: | | |
| Long-term debt and capital lease obligations, net of current portion | 169.7 | 344.4 |
| Environmental liabilities, net of current portion | 5.3 | 6.7 |
| Asset retirement obligations | 6.6 | 5.3 |
| Deferred tax liabilities | 53.1 | 60.3 |
| Other non-current liabilities | 13.0 | 10.1 |
| Total non-current liabilities | 247.7 | 426.8 |
| Shareholders' Equity: | | |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 0 shares issued and outstanding | | |
| Common stock, \$0.01 par value, 110,000,000 shares authorized, 53,680,570 and 53,666,570 shares issued and outstanding, respectively | 0.5 | 0.5 |
| Additional paid-in capital | 276.6 | 274.1 |
| Accumulated other comprehensive (loss) income | (5.1) | 0.3 |
| Retained earnings | 256.0 | 237.6 |
| Total shareholders' equity | 528.0 | 512.5 |
| Total liabilities and shareholders' equity | \$ 1,242.7 | \$ 1,244.3 |

See accompanying notes to the condensed consolidated financial statements

Table of Contents**Delek US Holdings, Inc.****Condensed Consolidated Statements of Operations (Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------------------|-------------------------------------------------------|-------------|--------------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (In millions, except share and per share data) | | | |
| Net sales | \$ 1,465.1 | \$ 1,070.2 | \$ 4,132.9 | \$ 2,978.9 |
| Operating costs and expenses: | | | | |
| Cost of goods sold | 1,327.9 | 958.7 | 3,815.2 | 2,587.6 |
| Operating expenses | 67.7 | 55.8 | 190.2 | 159.1 |
| General and administrative expenses | 16.5 | 14.0 | 42.4 | 40.0 |
| Depreciation and amortization | 10.6 | 8.4 | 29.2 | 23.4 |
| Gain on sale of assets | (4.0) | | (6.9) | |
| | 1,418.7 | 1,036.9 | 4,070.1 | 2,810.1 |
| Operating income | 46.4 | 33.3 | 62.8 | 168.8 |
| Interest expense | 6.5 | 7.8 | 18.2 | 23.3 |
| Interest income | (0.4) | (2.5) | (2.0) | (7.7) |
| Loss (earnings) from equity method investment | 0.8 | (0.6) | 7.9 | (0.6) |
| Other expenses, net | 0.1 | 1.3 | 0.8 | 1.5 |
| | 7.0 | 6.0 | 24.9 | 16.5 |
| Income before income tax expense | 39.4 | 27.3 | 37.9 | 152.3 |
| Income tax expense | 14.0 | 6.9 | 13.5 | 43.8 |
| Net income | \$ 25.4 | \$ 20.4 | \$ 24.4 | \$ 108.5 |
| Basic earnings per share | \$ 0.47 | \$ 0.39 | \$ 0.45 | \$ 2.10 |
| Diluted earnings per share | \$ 0.47 | \$ 0.38 | \$ 0.45 | \$ 2.07 |
| Weighted average common shares outstanding: | | | | |
| Basic | 53,680,570 | 52,299,679 | 53,673,290 | 51,543,001 |
| Diluted | 54,380,835 | 53,237,543 | 54,414,106 | 52,298,365 |
| Dividends declared per common share outstanding | \$ 0.0375 | \$ | \$ 0.1125 | \$ 0.2725 |

See accompanying notes to the condensed consolidated financial statements

Table of Contents**Delek US Holdings, Inc.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

| | Nine Months Ended | |
|-----------------------------------------------------------------------------------|--------------------------|-------------|
| | September 30, | |
| | 2008 | 2007 |
| | (In millions) | |
| Cash flows from operating activities: | | |
| Net income | \$ 24.4 | \$ 108.5 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 29.2 | 23.4 |
| Amortization of deferred financing costs | 3.4 | 3.7 |
| Accretion of asset retirement obligations | 0.6 | 0.2 |
| Deferred income taxes | (5.0) | 4.6 |
| Loss (earnings) from equity method investment | 7.9 | (0.6) |
| Loss on interest rate derivative instruments | 0.8 | 1.5 |
| Gain on sale of assets | (6.9) | |
| Stock-based compensation expense | 2.5 | 2.4 |
| Income tax benefit of stock-based compensation | | (3.7) |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | (29.2) | (27.3) |
| Inventories and other current assets | 22.8 | (23.6) |
| Accounts payable and other current liabilities | 57.8 | 65.1 |
| Non-current assets and liabilities, net | (9.4) | 2.2 |
| Net cash provided by operating activities | 98.9 | 156.4 |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (472.8) | (1,969.9) |
| Sales of short-term investments | 517.2 | 1,903.7 |
| Purchase of equity investment | | (88.8) |
| Business combinations, net of cash acquired | | (74.6) |
| Purchases of property, plant and equipment | (91.4) | (50.0) |
| Proceeds from sale of property, plant and equipment | 8.3 | |
| Net cash used in investing activities | (38.7) | (279.6) |
| Cash flows from financing activities: | | |
| Net repayments from long-term revolver | (64.3) | (6.5) |
| Proceeds from other debt instruments | 21.0 | 65.0 |
| Payments on debt and capital lease obligations | (35.6) | (1.5) |
| Proceeds from exercise of stock options | | 3.8 |
| Income tax benefit of stock-based compensation | | 3.7 |
| Dividends paid | (6.0) | (15.9) |
| Deferred financing costs paid | (0.9) | (1.4) |

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| | | |
|----------------------------------------------------------|---------|---------|
| Net cash (used in) provided by financing activities | (85.8) | 47.2 |
| Net decrease in cash and cash equivalents | (25.6) | (76.0) |
| Cash and cash equivalents at the beginning of the period | 105.0 | 101.6 |
| Cash and cash equivalents at the end of the period | \$ 79.4 | \$ 25.6 |

Supplemental disclosures of cash flow information:

Cash paid during the year for:

| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|
| Interest, net of capitalized interest of \$2.9 million and \$1.1 million for the nine months ended September 30, 2008 and 2007, respectively | \$ 12.0 | \$ 15.5 |
| Income taxes | \$ 0.2 | \$ 33.9 |
| Stock issued in connection with the purchase of equity method investment | \$ | \$ 51.2 |

See accompanying notes to the consolidated financial statements

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Delek US Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. General

Delek US Holdings, Inc. (Delek, we, our or us) 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) (collectively, the Subsidiaries).

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 a refinery in Tyler, Texas. We initiated operations of our marketing segment in August 2006 with the purchase of assets from Pride Companies LP and affiliates (Pride Acquisition). 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 September 30, 2008, approximately 73.4% of our outstanding shares are beneficially owned by Delek Group Ltd. (Delek Group), a conglomerate that is domiciled and publicly traded in Israel, has significant interests in fuel supply businesses and is controlled indirectly by Mr. Itshak Sharon (Tshuva).

Delek is a diversified energy business focused on petroleum refining, wholesale sales of refined products and retail marketing. Management views operating results primarily in three segments: refining, marketing and retail. The refining segment operates a high conversion, independent refinery in Tyler, Texas. The marketing segment sells refined products on a wholesale basis in West Texas through company-owned and third-party operated terminals. The retail segment markets gasoline, diesel and other refined petroleum products and convenience merchandise through a network of 495 company-operated retail fuel and convenience stores. Segment reporting is more fully discussed in Note 8. In addition, we own a minority equity interest in Lion Oil Company, a privately-held Arkansas corporation, which operates a 75,000 barrel per day high-conversion crude oil refinery and other pipeline and product terminals, which is more fully discussed in Note 5.

2. Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Delek and its wholly-owned subsidiaries. We hold a 34.6% minority interest in Lion Oil Company, which we account for as an equity method investment. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted, although management believes that the disclosures are adequate to make the financial information presented not misleading. Our unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States applied on a consistent basis with those of the annual audited financial statements included in our Annual Report on Form 10-K and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). These unaudited, condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2007 included in our Annual Report on Form 10-K filed with the SEC on March 3, 2008.

In the opinion of management, all adjustments necessary for a fair presentation of the financial position and the results of operations for the interim periods have been included. All significant intercompany transactions and account balances have been eliminated in consolidation. All adjustments are of a normal, recurring nature. Operating results for the interim period should not be viewed as representative of results that may be expected for any future interim period or for the full year.

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Delek US Holdings, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain December 31, 2007 balance sheet amounts, primarily associated with various receivables and payables, have been reclassified using a gross presentation method. Sales of intermediate feedstocks, which had previously been presented on a net basis in cost of goods sold, have been reclassified to net sales. This change in presentation resulted in an increase in both net sales and cost of goods sold of \$5.3 million and \$5.4 million for the three and nine months ended September 30, 2007, respectively.

Certain pipeline expenses previously presented in cost of goods sold have been reclassified to operating expense, general and administrative expenses, and depreciation and amortization. This change in presentation, which was made as of December 31, 2007, resulted in a decrease in cost of goods sold totaling \$1.2 million and \$3.0 million for the three and nine months ended September 30, 2007, respectively. These other expenses were increased, in total, by the same amounts.

These reclassifications were made in order to conform to the current year reporting and had no effect on net income or shareholders' equity, as previously reported.

Cash and Cash Equivalents

Delek maintains cash and cash equivalents in accounts with large, national financial institutions and retains nominal amounts of cash at the convenience store locations as petty cash. All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. As of December 31, 2007, these cash equivalents consisted primarily of time deposits, money market investments and high-quality commercial paper. As of September 30, 2008, these cash equivalents consisted primarily of overnight investments in U.S. Government obligations and bank repurchase obliga