Delek US Holdings, Inc.
Form 10-Q
November 09, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2011

OR

o 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	52-2319066
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
7102 Commerce Way Brentwood, Tennessee	37027
(Address of principal executive offices)	(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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

At October 28, 2011, there were 58,016,342 shares of common stock, $0.01 par value, outstanding.

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Part I.
FINANCIAL INFORMATION
Item 1. Financial Statements

Delek US Holdings, Inc.
Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2011	December 31, 2010
	(In millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$218.7	$49.1
Accounts receivable	305.4	104.7
Inventory	365.9	136.7
Other current assets	37.2	8.9
Total current assets	927.2	299.4
Property, plant and equipment:		
Property, plant and equipment	1,224.0	886.7
Less: accumulated depreciation	(246.2)	(206.6)
Property, plant and equipment, net	977.8	680.1
Goodwill	71.9	71.9
Other intangibles, net	16.7	7.9
Minority investment	—	71.6
Other non-current assets	20.6	13.7
Total assets	$2,014.2	$1,144.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$393.9	$222.9
Current portion of long-term debt and capital lease obligations	27.1	14.1
Current note payable to related party	6.0	—
Obligation under Supply and Offtake Agreement	190.4	—
Accrued expenses and other current liabilities	121.7	55.5
Total current liabilities	739.1	292.5
Non-current liabilities:		
Long-term debt and capital lease obligations, net of current portion	313.0	237.7
Note payable to related party	78.0	44.0
Environmental liabilities, net of current portion	10.2	2.8
Asset retirement obligations	7.8	7.3
Deferred tax liabilities	149.9	105.9
Other non-current liabilities	33.5	11.1
Total non-current liabilities	592.4	408.8
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 110,000,000 shares authorized, 58,011,960 shares and 54,403,208 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	0.6	0.5
Additional paid-in capital	338.4	287.5

Accumulated other comprehensive income	0.1	—
Retained earnings	313.1	155.3
Non-controlling interest in subsidiaries	30.5	—
Total shareholders’ equity	682.7	443.3
Total liabilities and shareholders’ equity	$2,014.2	$1,144.6

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In millions, except share and per share data)			
Net sales	$2,205.0	$875.5	$5,197.2	$2,766.1
Operating costs and expenses:				
Cost of goods sold	1,911.5	793.7	4,558.6	2,509.5
Operating expenses	94.8	58.2	238.2	170.1
Insurance proceeds — business interruption	—	—	—	(12.8)
Property damage proceeds, net	—	—	—	(4.0)
General and administrative expenses	18.8	14.9	61.9	45.0
Depreciation and amortization	20.0	14.4	53.3	44.9
Loss on sale of assets	0.6	0.2	2.6	0.3
Total operating costs and expenses	2,045.7	881.4	4,914.6	2,753.0
Operating income (loss)	159.3	(5.9)	282.6	13.1
Interest expense	16.4	8.1	38.7	25.6
Gain on investment in Lion Oil	(3.7)	—	(12.9)	—
Total non-operating expenses	12.7	8.1	25.8	25.6
Income before income taxes	146.6	(14.0)	256.8	(12.5)
Income tax expense (benefit)	50.1	(4.1)	87.4	(3.5)
Net income (loss)	96.5	(9.9)	169.4	(9.0)
Net income attributed to non-controlling interest	4.0	—	5.1	—
Net income (loss) attributable to Delek	$92.5	$(9.9)	$164.3	$(9.0)
Basic earnings (loss) per share	$1.60	$(0.18)	$2.93	$(0.17)
Diluted earnings (loss) per share	$1.58	$(0.18)	$2.91	$(0.17)
Weighted average common shares outstanding:				
Basic	57,973,790	54,385,007	56,122,544	54,220,553
Diluted	58,579,804	54,385,007	56,474,636	54,220,553
Dividends declared per common share outstanding	$0.0375	$0.0375	$0.1125	$0.1125

See accompanying notes to the condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:	(In millions, except per share data)	
Net income (loss)	$169.4	$(9.0)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53.3	44.9
Amortization of deferred financing costs	4.4	4.9
Accretion of asset retirement obligations	0.4	0.3
Deferred income taxes	42.9	(2.9)
Gain on investment in Lion Oil	(12.9)	—
Loss on sale of assets	2.6	0.3
Gain on involuntary conversion of assets	—	(4.0)
Stock-based compensation expense	1.7	2.6
Income tax benefit of stock-based compensation	(2.4)	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(180.7)	(18.5)
Inventories and other current assets	(30.8)	24.5
Accounts payable and other current liabilities	(30.3)	0.4
Obligation under Supply and Offtake Agreement, net	(11.3)	—
Non-current assets and liabilities, net	18.2	(3.5)
Net cash provided by operating activities	24.5	40.0
Cash flows from investing activities:		
Business combination — Lion Acquisition	(80.2)	—
Purchases of property, plant and equipment	(50.1)	(40.3)
Expenditures to rebuild refinery	—	(0.2)
Proceeds from sales of convenience store assets	3.4	4.2
Property damage insurance proceeds	—	6.2
Net cash used in investing activities	(126.9)	(30.1)
Cash flows from financing activities:		
Proceeds from long-term revolvers	477.8	503.6
Payments on long-term revolvers	(527.1)	(498.8)
Proceeds from term debt	140.7	—
Payments on term debt and capital lease obligations	(13.1)	(47.7)
Proceeds from inventory financing agreement	201.7	—
Proceeds from exercise of stock options	2.6	—
Taxes paid in connection with settlement of share purchase rights	—	(2.5)
Income tax benefit of stock-based compensation	2.4	—
Dividends paid	(6.5)	(6.3)
Deferred financing costs paid	(6.5)	(9.1)
Net cash provided by (used in) financing activities	272.0	(60.8)
Net increase (decrease) in cash and cash equivalents	169.6	(50.9)
Cash and cash equivalents at the beginning of the period	49.1	68.4
Cash and cash equivalents at the end of the period	$218.7	$17.5
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
	$31.2	$18.6

Interest, net of capitalized interest of a nominal amount in both the 2011 and 2010 periods		
Income taxes	$38.7	$1.6
Non-cash financing activities:		
Stock issued in connection with the Lion Acquisition	$44.3	$—

See accompanying notes to the condensed consolidated financial statements

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Delek US Holdings, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
1. Organization and Basis of Presentation
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”), Delek Marketing & Supply, Inc. (“Marketing”) and Lion Oil Company (“Lion Oil”) (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. 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.
In 2007, Delek acquired approximately 34.6% of the issued and outstanding shares of common stock of Lion Oil, a privately held Arkansas corporation. In April 2011, Delek acquired an additional 53.7% of the issued and outstanding shares of common stock, par value $0.10 per share (the “Lion Shares”), of Lion Oil from Ergon, Inc. (“Ergon”), the former majority shareholder, bringing Delek’s interest in Lion Oil to 88.3%. Delek reports Lion Oil as part of its consolidated group. See Note 3 for discussion of this transaction.
Delek is listed on the New York Stock Exchange under the symbol DK. As of September 30, 2011, approximately 68.5% of our outstanding shares were beneficially owned by Delek Group Ltd. (“Delek Group”) located in Natanya, Israel.
The condensed consolidated financial statements include the accounts of Delek and its wholly-owned subsidiaries. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted, although management believes that the disclosures herein are adequate to make the financial information presented not misleading. Our unaudited condensed consolidated financial statements have been prepared in conformity with GAAP 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, 2010 included in our Annual Report on Form 10-K filed with the SEC on March 11, 2011.
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.
The preparation of financial statements in conformity with GAAP 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.
2. Explosion and Fire at the Tyler, Texas Refinery
On November 20, 2008, an explosion and fire occurred at our 60,000 barrels per day (“bpd”) refinery in Tyler, Texas. Two of our employees died as a result of the event and other individuals have claimed injuries. The event caused damage to both our saturates gas plant and naphtha hydrotreater and resulted in an immediate suspension of our refining operations. The Tyler refinery was subject to a gradual, monitored restart in May 2009, culminating in a full resumption of operations on May 18, 2009. We settled all outstanding property damage and business interruption insurance claims in the second quarter 2010.
3. Lion Oil Acquisition

In 2007, Delek acquired approximately 34.6% of the issued and outstanding shares of common stock of Lion Oil. In April 2011, Delek acquired an additional 53.7% of the Lion Shares from Ergon (the “Lion Acquisition”), bringing Delek’s interest in Lion Oil to 88.3%.

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Lion Oil owns the following assets: an 80,000 bpd refinery located in El Dorado, Arkansas; the 80-mile Magnolia crude oil transportation system that runs between Shreveport, Louisiana and the Magnolia crude terminal; the 28-mile El Dorado crude oil transportation system that runs from the Magnolia terminal to the El Dorado refinery, as well as two associated product pipelines; a crude oil gathering system with approximately 600 miles of operating pipeline; and light product distribution terminals located in Memphis and Nashville, Tennessee. The distribution terminals located in Tennessee supply products to some of Delek's convenience stores in the Memphis and Nashville markets. Upon acquiring a majority equity ownership position in Lion Oil, Delek assumed operational management of the El Dorado refinery and its related assets. Delek now reports Lion Oil as part of its consolidated group. Transaction costs associated with the Lion Acquisition were $0.5 million and $5.2 million, respectively, during the three and nine months ended September 30, 2011 and were recognized in general and administrative expenses in the accompanying condensed consolidated statements of operations.

As of December 31, 2010, Delek carried its investment in Lion Oil at $71.6 million, using the cost method of accounting. During the three and nine months ended September 30, 2011, we recognized gains of $3.7 million and $12.9 million, respectively, as a result of remeasuring the 34.6% cost basis interest in Lion Oil at its fair value as of the Lion Acquisition date in accordance with ASC 805, Business Combinations. This remeasurement was derived from the consideration transferred in the Lion Acquisition. This gain was recognized in the condensed consolidated statements of operations. The acquisition-date fair value of the previous cost basis interest was $84.5 million and is included in the measurement of the consideration transferred.

The components of the consideration transferred were as follows:

Cash paid to Ergon		$80.2
Delek restricted common stock issued to Ergon	3,292,844	
Average price per share of Delek stock on April 29, 2011	$13.45	
Total value of common stock consideration		44.3
Contingent consideration		6.7
Fair value of Delek investment prior to the Lion Acquisition		$84.5
		$215.7

The allocation of the purchase price was based upon a preliminary valuation. Our estimates and assumptions are subject to change during the purchase price allocation period. The primary areas of the purchase price allocation that are not yet finalized relate to property, plant and equipment values, the valuation of intangible assets acquired, certain legal matters, and income taxes. During the third quarter of 2011, we adjusted certain of the acquisition-date fair values previously disclosed, based primarily on additional information regarding contingent consideration and the finalization of working capital amounts, obtained subsequent to the acquisition. The fair value of the contingent consideration is based on certain payments due to Ergon related to future sales of the asphalt produced at the El Dorado refinery. The liability for these payments is recorded in accrued expenses and other current liabilities and other non-current liabilities in the condensed consolidated balance sheets.

The preliminary allocation of the aggregate purchase price of Lion Oil as of September 30, 2011 is summarized as follows (in millions):

Inventory	$222.6
Accounts receivable and other current assets	20.7
Property, plant and equipment	304.4
Intangible assets	11.3
Other non-current assets	19.1
Accounts payable and other current liabilities	(264.2)
Long-term note to Ergon	(50.0)
Asset retirement obligations and environmental liabilities	(9.9)
Other liabilities	(12.9)
	241.1
Fair value of non-controlling interest in Lion Oil	(25.4)
Net fair value of equity acquired	$215.7

Certain liabilities recorded in the Lion Acquisition relate to accruals for possible loss contingencies associated with two lawsuits pending at the time of the acquisition. We reached an agreement to settle one of these in the third quarter of 2011; the

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other is discussed more fully in Note 14.
Delek began consolidating Lion Oil's results of operations on April 29, 2011. Lion Oil contributed $900.7 million and $1,413.1 million to net sales, respectively, for the three months ended September 30, 2011 and for the period from April 29, 2011 through September 30, 2011. Lion Oil contributed net income of $30.6 million and $38.4 million, respectively, (net of income attributed to non-controlling interest of $4.0 million and $5.1 million, respectively) for the three months ended September 30, 2011 and the for period from April 29, 2011 through September 30, 2011.
Below are the unaudited pro forma consolidated results of operations of Delek for the three and nine months ended September 30, 2011 and for the three and nine months ended September 30, 2010, as if the Lion Acquisition had occurred on January 1, 2010 (amounts in millions, except per share information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$2,205.0	$1,468.8	$6,278.7	$4,626.9
Net income	96.5	(16.3)	184.1	2.7
Net income (loss) attributed to non-controlling interest	4.0	(0.7)	6.9	1.8
Net income attributable to Delek	$92.5	$(15.6)	$177.2	$0.9
Basic earnings per share	$1.60	$(0.27)	$3.16	$0.02
Diluted earnings per share	$1.58	$(0.27)	$3.14	$0.02

Product purchased from Lion Oil by the retail segment prior to the Lion Acquisition totaled $4.3 million during the nine months ended September 30, 2011 and $2.6 million and $8.4 million during the three and nine months ended September 30, 2010, respectively. Also prior to the Lion Acquisition, the refining segment sold $3.6 million and $1.5 million, respectively, of intermediate products to the El Dorado refinery during the nine months ended September 30, 2011 and 2010. These product purchases and sales were made at market values. All product purchases and sales subsequent to the Lion Acquisition have been eliminated in consolidation.
In October 2011, we acquired the remaining non-controlling interest in Lion Oil, bringing our ownership interest to 100%. See Note 16 for additional information.
4. Inventory
Refinery inventory consists of crude oil, refined products and blendstocks which are stated at the lower of cost or market. Cost of inventory for the Tyler refinery is determined under the last-in, first-out ("LIFO") valuation method. Cost of crude oil, refined product and feedstock inventories in excess of market value are charged to cost of goods sold. Cost of inventory for the El Dorado refinery is determined on a first-in, first-out ("FIFO") basis.
Marketing inventory consists of refined products which are stated at the lower of cost or market on a FIFO basis.
Retail merchandise inventory consists of gasoline, diesel fuel, other petroleum products, cigarettes, beer, convenience merchandise and food service merchandise. Fuel inventories are stated at the lower of cost or market on a FIFO basis. Non-fuel inventories are stated at estimated cost as determined by the retail inventory method.
Carrying value of inventories consisted of the following (in millions):

	September 30, 2011	December 31, 2010
Refinery raw materials and supplies	$111.1	$29.5
Refinery work in process	69.7	31.5
Refinery finished goods	131.0	18.9
Retail fuel	17.9	20.2
Retail merchandise	26.2	28.3
Marketing refined products	10.0	8.3
Total inventories	$365.9	$136.7

At September 30, 2011 and December 31, 2010, the excess of replacement cost (FIFO) over the carrying value (LIFO) of the Tyler refinery inventories was $34.5 million and $36.6 million, respectively.

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Permanent Liquidations

During the three and nine months ended September 30, 2011, respectively, we incurred a permanent reduction in a LIFO layer resulting in a liquidation (loss) gain in our refinery inventory in the amount of $(1.5) million and $0.2 million. This liquidation was recognized as a component of cost of goods sold in the three and nine months ended September 30, 2011.

During the three and nine months ended September 30, 2010, respectively, we incurred a permanent reduction in a LIFO layer resulting in a liquidation gain in our refinery finished goods inventory in the amount of $1.1 million and $0.3 million. This liquidation was recognized as a component of cost of goods sold in the three and nine months ended September 30, 2010.

5. Crude Oil Supply and Inventory Purchase Agreement

Delek entered into a Master Supply and Offtake Agreement ("Supply and Offtake Agreement") with J. Aron & Company ("J. Aron") at the closing of the Lion Acquisition. Pursuant to the Supply and Offtake Agreement, J. Aron purchased a majority of the crude oil and refined products in Lion Oil's inventory at market prices. Throughout the term of the Supply and Offtake Agreement, which expires on April 29, 2014, Lion Oil and J. Aron will identify mutually acceptable contracts for the purchase of crude oil from third parties and J. Aron will supply up to 100,000 bpd of crude to the El Dorado refinery. Crude oil supplied to the El Dorado refinery by J. Aron will be purchased daily at an estimated average monthly market price by Lion Oil. J. Aron will also purchase all refined product from the El Dorado refinery at an estimated market price daily, as they are produced. These daily purchases and sales are trued-up on a monthly basis in order to reflect actual average monthly prices. We have recorded a receivable of $10.3 million as of September 30, 2011 related to this settlement. Also pursuant to the Supply and Offtake Agreement and other related agreements, Lion Oil will endeavor to arrange potential sales by either Lion Oil or J. Aron to third parties of the products produced at the El Dorado refinery. In instances where Lion Oil is the seller to such third parties, J. Aron will first transfer the applicable products to Lion Oil.

Upon any termination of the Supply and Offtake Agreement, including in connection with a force majeure, the parties are required to negotiate with third parties for the assignment to us of certain contracts, commitments and arrangements including procurement contracts, commitments for the sale of product, and pipeline, terminalling, storage and shipping arrangements. While title of the inventories will reside with J. Aron, this arrangement will be accounted for as a financing. Delek incurred fees of $2.1 million and $3.5 million, respectively, during the three and nine months ended September 30, 2011, which are included as a component of interest expense in the statement of operations.

Upon the expiration of the Supply and Offtake Agreement on April 29, 2014 or upon any earlier termination, Delek will be required to repurchase the consigned crude oil and refined products from J. Aron at then market prices. At September 30, 2011, Delek had 2.0 million barrels of inventory consigned to J. Aron and we have recorded a liability associated with this consigned inventory of $190.1 million.

Each month, J. Aron sets target inventory levels for each product subject to pre-agreed minimum and maximum inventory levels for each product group. At September 30, 2011, we recorded a current liability of $0.3 million for forward commitments related to the month end actual consignment inventory levels differing from the month end consignment inventory target levels and the associated pricing with these inventory level differences.

6. Long-Term Obligations and Short-Term Note Payable

Outstanding borrowings under Delek's existing debt instruments and capital lease obligations are as follows (in millions):

	September 30, 2011	December 31, 2010
MAPCO Revolver	$74.5	$122.1
Fifth Third Revolver	27.2	29.0
Promissory notes	224.7	144.0
Term loan facility	97.0	—
Capital lease obligations	0.7	0.7
	424.1	295.8

Less: Current portion of long-term debt, notes payable and capital lease obligations	33.1	14.1
	$391.0	$281.7

MAPCO Revolver

On December 23, 2010, we executed a $200.0 million revolving credit facility ("MAPCO Revolver") that includes (i) a

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$200.0 million revolving credit limit; (ii) a $10.0 million swing line loan sub-limit; (iii) a $50.0 million letter of credit sub-limit; and (iv) an accordion feature which permits an increase in borrowings of up to $275.0 million, subject to additional lender commitments. The MAPCO Revolver extended and increased the $108.0 million revolver and terminated the $165.0 million term loan outstanding under our Second Amended and Restated Credit Agreement among MAPCO, Fifth Third Bank as Administrative Agent and the lenders party thereto ("Senior Secured Credit Facility"). As of September 30, 2011, we had $74.5 million outstanding under the MAPCO Revolver, as well as letters of credit issued of $28.0 million. Borrowings under the MAPCO Revolver are secured by substantially all the assets of Express and its subsidiaries. The MAPCO Revolver will mature on December 23, 2015. The MAPCO Revolver bears interest based on predetermined pricing grids which allow us to choose between Base Rate Loans or LIBOR Rate Loans. At September 30, 2011, the weighted average borrowing rate was approximately 4.4%. Additionally, the MAPCO Revolver requires us to pay a leverage ratio dependent quarterly fee on the average unused revolving commitment. As of September 30, 2011, this fee was 0.75% per year. Amounts available under the MAPCO Revolver as of September 30, 2011 were approximately $97.5 million.

Wells ABL

Delek has an asset-based loan ("ABL") revolving credit facility ("Wells ABL") that includes an accordion feature which permits an increase in facility size of up to $600.0 million subject to additional lender commitments. In connection with the closing of the Lion Acquisition, Delek executed an amendment to the Wells ABL (the "Wells ABL Amendment") on April 29, 2011. Under the terms of the Wells ABL Amendment, among other things, (i) the size of the Wells ABL was increased from $300.0 million to $400.0 million, (ii) the swing line loan sub-limit was increased from $30.0 million to $40.0 million, (iii) the letter of credit sub-limit was increased from $300.0 million to $375.0 million, (iv) the maturity date of the facility was extended from February 23, 2014 to April 29, 2015, and (v) the Wells ABL Amendment permits the issuance of letters of credit under the Wells ABL to secure obligations of Lion Oil and authorizes a factoring agreement between Refining and Lion Oil. As of September 30, 2011, we had letters of credit issued under the facility totaling approximately $177.9 million and nominal amounts in outstanding loans under the Wells ABL. Borrowings under the Wells ABL are secured by substantially all the assets of Refining and its subsidiaries, with certain limitations. Under the facility, revolving loans and letters of credit are provided subject to availability requirements which are determined pursuant to a borrowing base calculation as defined in the Wells ABL. The borrowing base as calculated is primarily supported by cash, certain accounts receivable and certain inventory. Borrowings under the facility bear interest based on predetermined pricing grids which allow us to choose between Base Rate Loans or LIBOR Rate Loans. Additionally, the Wells ABL requires us to pay a credit utilization dependent quarterly fee on the average unused revolving commitment. As of September 30, 2011, this fee was 0.75% per year. Borrowing capacity, as calculated and reported under the terms of the Wells ABL credit facility, net of a $20.0 million availability reserve requirement, as of September 30, 2011 was $136.3 million.

Fifth Third Revolver

We have a revolving credit facility with Fifth Third Bank ("Fifth Third Revolver") that carries a credit limit of $75.0 million, including a $35.0 million sub-limit for letters of credit. As of September 30, 2011, we had $27.2 million outstanding borrowings under the facility, as well as letters of credit issued of $11.0 million. Borrowings under the Fifth Third Revolver are secured by substantially all of the assets of Marketing. The Fifth Third Revolver matures on December 19, 2012. The Fifth Third Revolver bears interest based on predetermined pricing grids that allow us to choose between Base Rate Loans or LIBOR Rate Loans. At September 30, 2011, the weighted average borrowing rate was approximately 4.2%. Additionally, the Fifth Third Revolver requires us to pay a quarterly fee of 0.50% per year on the average available revolving commitment. Amounts available under the Fifth Third Revolver as of September 30, 2011 were approximately $36.8 million.

Reliant Bank Revolver

We have a revolving credit agreement with Reliant Bank ("Reliant Bank Revolver") that provides for unsecured loans of up to $7.5 million. As of September 30, 2011, we had no amounts outstanding under this facility. The Reliant Bank Revolver was amended on March 28, 2011 to (i) extend the maturity date by three months to June 28, 2011 and (ii) increase the interest rate for borrowings under the facility to a fixed rate of 5.75%. On June 28, 2011, we further amended the Reliant Bank Revolver to (i) extend the maturity date by one year to June 28, 2012, (ii) decrease the bank

borrowing commitments under the facility from $12.0 million to $7.5 million, and (iii) modify the financial covenant definitions to align with those contained in the Term Loan Facility discussed below. Additionally, the Reliant Bank Revolver requires us to pay a quarterly fee of 0.50% per year on the average available revolving commitment. As of September 30, 2011, we had $7.5 million available under the Reliant Bank Revolver.

Promissory Notes

On November 2, 2010, Delek executed a promissory note in the principal amount of $50.0 million with Bank Leumi USA (“Leumi Note”). In connection with the closing of the Lion Acquisition, the Leumi Note was amended on April 29, 2011 to address the effect of the purchase on the security and financial covenants under the note. As of September 30, 2011, we had $46.0 million

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in outstanding borrowings under the Leumi Note. The Leumi Note replaced and terminated promissory notes with Bank Leumi USA in the original principal amounts of $30.0 million and $20.0 million and is secured by all of our shares in Lion Oil. The Leumi Note requires quarterly amortization payments of $2.0 million beginning on April 1, 2011 and matures on October 1, 2013. The Leumi Note bears interest at the greater of a fixed spread over three-month LIBOR or an interest rate floor of 5.0%. As of September 30, 2011, the weighted average borrowing rate was 5.0%.
On October 5, 2010, Delek entered into two promissory notes with Israel Discount Bank of New York ("IDB") in the principal amounts of $30.0 million and $20.0 million (collectively the "IDB Notes"). In connection with the closing of the Lion Acquisition, the IDB Notes were amended and restated on April 29, 2011 to address the effect of the purchase on the security and financial covenants under the notes. As of September 30, 2011, we had $44.0 million in total outstanding borrowings under the IDB Notes. The IDB Notes replaced and terminated promissory notes with IDB in the original principal amounts of $30.0 million and $15.0 million and are secured by all of our shares in Lion Oil. The IDB Notes require quarterly amortization payments totaling $2.0 million, beginning at the end of the first quarter of 2011. The maturity date of both IDB Notes is December 31, 2013. Both IDB Notes bear interest at the greater of a fixed spread over various LIBOR tenors, as elected by the borrower, or an interest rate floor of 5.0%. As of September 30, 2011, the weighted average borrowing rate was 5.0% under both IDB Notes.
On September 28, 2010, Delek executed an amended and restated note in favor of Delek Petroleum Ltd, an Israeli corporation and an affiliate of the company ("Delek Petroleum") ("Petroleum Note") in the principal amount of $44.0 million, replacing a note with Delek Petroleum in the original principal amount of $65.0 million. As of September 30, 2011, $44.0 million was outstanding under the Petroleum Note. The Petroleum Note contains the following provisions: (i) the payment of the principal and interest may be accelerated upon the occurrence and continuance of customary events of default under the note, (ii) Delek is responsible for the payment of any withholding taxes due on interest payments, (iii) the note is unsecured and contains no covenants, and (iv) the note may be repaid at the borrower's election in whole or in part at any time without penalty or premium. The Petroleum Note was amended on April 28, 2011 to extend the maturity date from January 1, 2012 to January 1, 2013. The Petroleum Note bears interest, payable on a quarterly basis, at 8.25% (excluding any applicable withholding taxes) and Delek is responsible for the payment of any withholding taxes due on interest payments.
On April 25, 2011, Delek entered into a joint venture with Gatlin Partners, LLC ("Developer"), to form GDK Bear Paw, LLC ("Bear Paw"). Delek and Developer each own 50% of Bear Paw. On May 12, 2011, Bear Paw entered into a Note with Standard Insurance Company (the "Note") for $1.9 million in order to build a MAPCO Mart convenience store. Bear Paw has entered into a lease with Express whereby Express will lease the property for a minimum of 20 years. The Note bears interest at 6.4% and is secured by the land, building and equipment of the completed MAPCO Mart. Under the terms of the Note, beginning on the first day of the tenth month following the initial fund advancement, Bear Paw shall make payments of principal on the Note over a ten year term at a 25 year amortization schedule. If the Note is not paid in full after the ten year period, Bear Paw may continue to make monthly payments under the Note, however the interest rate will reset pursuant to the terms of the Note. There is also an interest rate reset after the first twenty year period. The final maturity date of the Note is June 1, 2036. As of September 30, 2011, Bear Paw has drawn approximately $0.7 million under the Note.
On April 28, 2011, Delek executed a Subordinated Note with Delek Petroleum in the principal amount of $40.0 million ("Subordinated Note"). As of September 30, 2011, $40.0 million was outstanding under the Subordinated Note. The Subordinated Note matures on December 31, 2017 and is subordinated to the Term Loan Facility discussed below. Interest on the unpaid balance of the Subordinated Note will be computed at a rate per annum equal to 7.25% (net of withholding taxes) and Delek is responsible for the payment of any withholding taxes due on interest payments. The payment of the principal and interest on the Subordinated Note may be accelerated upon the occurrence and continuance of customary events of default. The Subordinated Note requires Delek to make quarterly interest payments commencing June 30, 2011 and annual principal amortization payments of $6.0 million commencing June 30, 2012, with payment of the latter subject to meeting certain payment conditions set forth in the subordination agreement in effect between Delek Petroleum and the Term Loan Facility creditors.
On April 29, 2011, Delek entered into a $50.0 million promissory note with Ergon, Inc. ("Ergon Note") in connection with the closing of the Lion Acquisition. As of September 30, 2011, $50.0 million was outstanding under the Ergon

Note. The Ergon Note requires Delek to make annual amortization payments of $10.0 million each commencing April 29, 2013. The Ergon Note matures on April 29, 2017. Interest under the Ergon Note is computed at a fixed rate equal to 4.0% per annum.

Term Loan Facility

On April 29, 2011, Delek entered into a $100.0 million term loan credit facility (“Term Loan Facility”) with Israeli Discount Bank of New York, Bank Hapoalim B.M. and Bank Leumi USA as the lenders. As of September 30, 2011, $97.0 million was outstanding under the Term Loan Facility. The Term Loan Facility requires Delek to make four quarterly amortization payments of $1.5 million each commencing June 30, 2011, followed by sixteen quarterly principal amortization payments of $4.0 million each. The Term Loan Facility matures on April 29, 2016, and is secured by all assets of Lion Oil (excluding inventory and accounts

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receivable) as well as all of our shares in Lion Oil. Interest on the unpaid balance of the Term Loan Facility will be computed at a rate per annum equal to the LIBOR Rate or the Reference Rate, at our election, plus the applicable margins, subject in each case to an interest rate floor of 5.5% per annum. As of September 30, 2011, the weighted average borrowing rate was 5.5%.

Interest-Rate Derivative Instruments

In 2011, Delek entered into interest rate swap agreements for a total notional amount of $160.0 million. These agreements are intended to economically hedge floating rate debt related to our current borrowings. However, as we have elected to not apply the permitted hedge accounting treatment, including formal hedge designation and documentation, in accordance with the provisions of ASC 815, Derivatives and Hedging (ASC 815), the fair value of the derivatives is recorded in other non-current liabilities in the accompanying consolidated balance sheets with the offset recognized in earnings. The derivative instruments mature in 2015. The estimated mark-to-market liability associated with our interest rate derivatives as of September 30, 2011 was $4.2 million.

In accordance with ASC 815, we recorded non-cash expense representing the change in estimated fair value of the interest rate swap agreements of $3.0 million and $4.2 million for the three and nine months ended September 30, 2011.

While Delek has not elected to apply permitted hedge accounting treatment for these interest rate derivatives in accordance with the provisions of ASC 815 in the past, we may choose to elect that treatment in future transactions.

7. Income Taxes

At September 30, 2011, Delek had unrecognized tax benefits of $0.7 million which, if recognized, would affect our effective tax rate. Delek recognizes accrued interest and penalties related to unrecognized tax benefits as an adjustment to the current provision for income taxes. Interest of a nominal amount was recognized related to unrecognized tax benefits during both the three and nine months ended September 30, 2011 and a nominal amount and $0.1 million, respectively, during the three and nine months ended September 30, 2010.

8. Shareholders' Equity

Dividends Paid

On August 2, 2011, Delek announced that its Board of Directors voted to declare a quarterly cash dividend of $0.0375 per share, payable on September 21, 2011, to shareholders of record on August 24, 2011.

On May 3, 2011, Delek announced that its Board of Directors voted to declare a quarterly cash dividend of $0.0375 per share, payable on June 21, 2011, to shareholders of record on May 24, 2011.

On February 8, 2011, Delek announced that its Board of Directors voted to declare a quarterly cash dividend of $0.0375 per share, payable on March 22, 2011, to shareholders of record on March 1, 2011.

Comprehensive Income

For the three and nine months ended September 30, 2011, comprehensive income includes net income and changes in the fair value of derivative instruments designated as cash flow hedges. Comprehensive income for the three and nine months ended September 30, 2010 was equivalent to net income (in millions).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to Delek	$92.5	$(9.9)	$164.3	$(9.0)
Other comprehensive income:				
Net unrealized gain on derivative instruments, net of tax expense of $1.2 and $0.1 million for the three and nine months ended September 30, 2011, respectively	2.1	—	0.1	—
Comprehensive income (loss)	$94.6	$(9.9)	$164.4	$(9.0)

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9. Stock Based Compensation

Compensation Expense Related to Equity-based Awards

Compensation expense for the equity-based awards amounted to $0.7 million ($0.5 million, net of taxes) and $1.7 million ($1.1 million, net of taxes) for the three and nine months ended September 30, 2011, respectively, and $0.7 million ($0.5 million, net of taxes) and $2.6 million ($1.7 million, net of taxes) for the three and nine months ended September 30, 2010, respectively. These amounts are included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

As of September 30, 2011, there was $9.0 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.4 years.

During the nine months ended September 30, 2011 and 2010, respectively, we issued 315,908 and 695,534 shares of common stock as a result of exercised stock options, stock appreciation rights, share purchase rights and vested restricted stock units. These amounts are net of 11,024 and 680,584 shares, respectively, withheld to satisfy employee tax obligations related to the exercises and vestings.

10. Earnings Per Share

Basic and diluted earnings per share ("EPS") are computed by dividing net income by the weighted average common shares outstanding. The common shares used to compute Delek's basic and diluted earnings per share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted average common shares outstanding	57,973,790	54,385,007	56,122,544	54,220,553
Dilutive effect of equity instruments	606,014	—	352,092	—
Weighted average common shares outstanding, assuming dilution	58,579,804	54,385,007	56,474,636	54,220,553

Outstanding equity awards totaling 1,448,873 and 2,615,535 common share equivalents were excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2011, respectively. Outstanding equity awards totaling 3,743,935 and 3,800,185 common share equivalents were excluded from the diluted earnings per share calculation for the three and nine months ended September 30, 2010, respectively. These share equivalents did not have a dilutive effect under the treasury stock method.

11. Segment Data

We report our operating results in three reportable segments: refining, marketing and retail. Decisions concerning the allocation of resources and assessment of operating performance are made based on this segmentation. Management measures the operating performance of each of its reportable segments based on the segment contribution margin. Segment contribution margin is defined as net sales less cost of sales and operating expenses, excluding depreciation and amortization. Operations which are not specifically included in the reportable segments are included in the corporate and other category, which primarily consists of operating expenses, depreciation and amortization expense and interest income and expense associated with corporate headquarters.

The refining segment processes crude oil and other purchased feedstocks for the manufacture of transportation motor fuels including various grades of gasoline, diesel fuel, aviation fuel, asphalt and other petroleum-based products that are distributed through owned and third-party product terminals. The refining segment has a combined nameplate capacity of 140,000 bpd, including the 60,000 bpd refinery located in Tyler, Texas and the 80,000 bpd refinery located in El Dorado, Arkansas.

Our marketing segment sells refined products on a wholesale basis in west Texas through company-owned and third-party operated terminals. This segment also provides marketing services to the Tyler refinery.

Our retail segment markets gasoline, diesel, other refined petroleum products and convenience merchandise through a network of company-operated retail fuel and convenience stores throughout the southeastern United States. As of September 30, 2011, we had 384 stores in total, consisting of 208 located in Tennessee, 87 in Alabama, 65 in Georgia, 11 in Arkansas and 8 in Virginia. The remaining 5 stores are located in Kentucky and Mississippi. The retail fuel and convenience stores operate under

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Delek's MAPCO Express®, MAPCO Mart®, East Coast®, Fast Food and Fuel™, Favorite Markets®, Delta Express® and Discount Food Mart™ brands. The retail segment also supplied fuel to approximately 69 dealer locations as of September 30, 2011. In the retail segment, management reviews operating results on a divisional basis, where a division represents a specific geographic market. These divisional operating segments exhibit similar economic characteristics, provide the same products and services, and operate in such a manner such that aggregation of these operations is appropriate for segment presentation.

Our refining business has a services agreement with our marketing segment, which, among other things, requires the refining segment to pay service fees based on the number of gallons sold at the Tyler refinery and a sharing of a portion of the margin achieved in return for providing marketing, sales and customer services. This intercompany transaction fee was $3.7 million and $9.1 million during the three and nine months ended September 30, 2011, respectively, and $2.6 million and $8.1 million during the three and nine months ended September 30, 2010, respectively. Additionally, the refining segment pays crude transportation and storage fees to the marketing segment for the utilization of certain crude pipeline assets. These fees were $2.6 million and $7.6 million during the three and nine months ended September 30, 2011, respectively, and $2.2 million and $7.1 million during the three and nine months ended September 30, 2010, respectively. During the three and nine months ended September 30, 2011, the refining segment sold finished product to the retail and marketing segments in the amount of $21.7 million and $37.5 million. During the three and nine months ended September 30, 2010, the refining segment sold $0.5 million and $11.7 million, respectively, in finished product to the marketing segment. All inter-segment transactions have been eliminated in consolidation.

The following is a summary of business segment operating performance as measured by contribution margin for the period indicated (in millions):

	Three Months Ended September 30, 2011				
(In millions)	Refining	Retail	Marketing	Corporate, Other and Eliminations	Consolidated
Net sales (excluding intercompany fees and sales)	$1,516.4	$499.4	$188.7	$0.5	$2,205.0
Intercompany fees and sales	18.0	—	6.3	(24.3)	—
Operating costs and expenses:					
Cost of goods sold	1,296.6	449.2	187.2	(21.5)	1,911.5
Operating expenses	61.7	34.6	1.0	(2.5)	94.8
Segment contribution margin	$176.1	$15.6	$6.8	$0.2	198.7
General and administrative expenses					18.8
Depreciation and amortization					20.0
Loss on sale of assets					0.6
Operating income					$159.3
Total assets	$1,476.7	$405.1	$72.9	$59.5	$2,014.2
Capital spending (excluding business combinations)	$12.1	$10.1	$0.1	$2.2	$24.5

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	Three Months Ended September 30, 2010				
(In millions)	Refining	Retail	Marketing	Corporate, Other and Eliminations	Consolidated
Net sales (excluding intercompany fees and sales)	$ 357.2				

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

d) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Theresa M. Stone

Theresa M. Stone
Chief Financial Officer
May 15, 2003

EXHIBIT INDEX

Exhibit Number	Description
99	Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.