

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 1994

OR

\_\_\_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-3876

HOLLY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

75-1056913  
(I.R.S. Employer  
Identification No.)

100 Crescent Court, Suite 1600  
Dallas, Texas  
(Address of principal executive offices)

75201-6927  
(Zip Code)

Registrant's telephone number, including area code (214) 871-3555

\_\_\_\_\_  
Former name, former address and former fiscal year, if changed since last  
report

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No\_\_\_

8,253,514 shares of Common Stock, par value \$.01 per share, were outstanding on  
June 9, 1994.

HOLLY CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements  
HOLLY CORPORATION  
CONSOLIDATED BALANCE SHEET  
(Dollars in Thousands Except Per Share Amounts)

	Unaudited April 30, 1994	July 31, 1993
	-----	-----
ASSETS		
-----		
Current assets		
Cash and cash equivalents	\$ 13,937	\$ 6,631
Accounts receivable: Trade	43,063	40,412
Crude oil	35,086	36,455
	-----	-----
	78,149	76,867
Inventories: Crude oil and refined products	31,486	32,625
Materials and supplies	5,617	5,347
	-----	-----
	37,103	37,972
Prepayments and other	6,749	7,082
	-----	-----
Total current assets	135,938	128,552
Properties, plants and equipment, at cost	232,742	215,603
Less accumulated depreciation, depletion and amortization	104,504	96,782
	-----	-----
	128,238	118,821
Other assets	2,214	2,434
	-----	-----
	\$266,390	\$249,807
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
Current liabilities		
Accounts payable	\$ 86,808	\$ 86,787
Accrued liabilities	15,082	16,648
Current maturities of long-term debt	5,608	5,608
Income taxes payable	4,872	7,364
	-----	-----
Total current liabilities	112,370	116,407

Deferred income taxes	13,446	12,474
Long-term debt, less current maturities	74,440	74,448
Contingencies		
Stockholders' equity		
Preferred stock, \$1.00 par value - 1,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value - 20,000,000 shares authorized; 8,650,282 shares issued	87	87
Additional capital	6,132	6,132
Retained earnings	61,304	42,058
	-----	-----
Common stock held in treasury, at cost - 396,768 shares	67,523	48,277
Deferred charge - amount due from ESOP	(569)	(569)
	(820)	(1,230)
	-----	-----
Total stockholders' equity	66,134	46,478
	-----	-----
	\$266,390	\$249,807
	=====	=====

See accompanying notes.

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HOLLY CORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
(Dollars in Thousands Except Per Share Amounts)

	Unaudited Three Months Ended April 30,		Unaudited Nine Months Ended April 30,	
	1994	1993	1994	1993
	-----	-----	-----	-----
Revenues				
Net sales	\$ 143,791	\$ 161,446	\$ 399,701	\$ 462,876
Miscellaneous	143	249	440	600
	-----	-----	-----	-----
	143,934	161,695	400,141	463,476
Costs and expenses				
Cost of sales	120,371	144,663	337,921	422,114
General and administrative	3,274	2,933	9,153	8,667
Depreciation, depletion and amortization	2,684	3,149	8,051	8,870
Exploration expenses, including dry holes	796	771	2,706	1,911
Miscellaneous	23	43	158	116
	-----	-----	-----	-----
	127,148	151,559	357,989	441,678
Income from operations	16,786	10,136	42,152	21,798
Other				
Interest income	101	14	254	109
Interest expense	(2,252)	(2,421)	(6,802)	(7,139)
	-----	-----	-----	-----
	(2,151)	(2,407)	(6,548)	(7,030)
Income before income taxes and cumulative effect of change in accounting for income taxes	14,635	7,729	35,604	14,768
Income tax provision				
Current	5,318	2,241	12,416	3,880
Deferred	587	795	1,919	1,587
	-----	-----	-----	-----
	5,905	3,036	14,335	5,467
Income before cumulative effect of change in accounting principle	8,730	4,693	21,269	9,301
Cumulative effect to August 1, 1992 of change in accounting for income taxes	-	-	-	(958)
Net income	\$ 8,730	\$ 4,693	\$ 21,269	\$ 8,343
	=====	=====	=====	=====
Income (loss) per common share				
Income before cumulative effect of of change in accounting principle	\$ 1.06	\$ .57	\$ 2.58	\$ 1.13
Cumulative effect to August 1, 1992 of change in accounting for income taxes	-	-	-	(.12)
Net income	\$ 1.06	\$ .57	\$ 2.58	\$ 1.01
	=====	=====	=====	=====
Cash dividends paid per share	\$ .10	\$ .075	\$ .25	\$ .225
Average number of shares of common stock outstanding (in thousands)	8,254	8,254	8,254	8,254

See accompanying notes.

HOLLY CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Dollars in Thousands)

	Unaudited Nine Months Ended April 30,	
	1994	1993
Cash flows from operating activities		
Net income	\$ 21,269	\$ 8,343
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	8,051	8,870
Deferred income taxes	1,919	1,587
Dry hole costs and leasehold impairment	1,037	705
Cumulative effect to August 1, 1992 of change in accounting for income taxes	-	958
Changes in other assets and liabilities		
(Increase) decrease in accounts receivable	(1,282)	4,255
(Increase) decrease in inventories	869	(5,424)
Decrease in income taxes receivable	-	2,115
(Increase) decrease in prepayments and other	(614)	1,959
Increase (decrease) in accounts payable	21	(11,298)
Increase (decrease) in accrued liabilities	(1,566)	2,411
Increase (decrease) in income taxes payable	(2,452)	641
Other, net	630	738
Net cash provided by operating activities	27,882	15,860
Cash flows from financing activities		
Decrease in notes payable	-	(700)
Reduction in long-term debt	(8)	(8)
Cash dividends	(2,063)	(1,857)
Net cash used for financing activities	(2,071)	(2,565)
Cash flows from investing activities		
Additions to properties, plants and equipment	(18,505)	(13,330)
Net cash used for investing activities	(18,505)	(13,330)
Cash and cash equivalents		
Increase (decrease) for the period	7,306	(35)
Beginning of year	6,631	1,389
End of period	\$13,937	\$ 1,354
Supplemental disclosure of cash flow information		
Cash paid during period for		
Interest	\$ 4,569	\$ 4,904
Income taxes	\$14,752	\$ 3,197

See accompanying notes.

HOLLY CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note A - Presentation of Financial Statements

In the opinion of the Company, the accompanying consolidated financial statements, which have not been audited by independent accountants (except for the consolidated balance sheet as of July 31, 1993), reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of April 30, 1994, the

consolidated results of operations for the three months and nine months ended April 30, 1994 and 1993, and consolidated cash flows for the nine months ended April 30, 1994 and 1993.

Certain notes and other information have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 1993.

References herein to the "Company" are for convenience of presentation and may include obligations, commitments or contingencies that pertain solely to one or more affiliates of the Company. Results of operations for the first nine months of fiscal 1994 are not necessarily indicative of the results to be expected for the full year.

#### Note B - Contingencies

In July 1993, the United States Department of Justice ("DOJ"), acting on behalf of the Environmental Protection Agency ("EPA"), filed a complaint in the United States District Court for the District of New Mexico alleging that the Company's subsidiary, Navajo Refining Company, beginning in September 1990 and continuing through the present, had violated and continues to violate the Resource Conservation and Recovery Act ("RCRA") and implementing regulations of the EPA by treating, storing and disposing of certain hazardous wastes without compliance with regulatory requirements. The complaint seeks a court order directing Navajo to comply with certain regulatory standards and civil penalties for the alleged non-compliance.

As previously disclosed, net income for the 1993 fiscal year included a pre-tax reserve of \$2 million in connection with this matter. The Company has been and continues to be engaged in what appear to be potentially fruitful settlement negotiations. While the Company continues to be optimistic that a negotiated resolution will be achieved, it remains indeterminable whether this matter's ultimate resolution will occur through settlement or litigation. In either case, phased closure of all four ponds in Navajo's wastewater treatment system may be required, with the resulting costs of closure and of developing an alternative means of treating and disposing of the refinery's wastewater.

#### Notes to Consolidated Financial Statements (Continued)

In this regard, after consultation with counsel and engineering consultants, the Company estimates that closure costs for all of the ponds could be between \$3.5 and \$9 million and development of additional treatment and alternative disposal could cost an additional \$2 to \$12 million. Please see Management's Discussion and Analysis of Financial Condition and Results of Operations below, for further discussion. These estimates do not include the cost of any possible civil penalty, the amount of which cannot be presently ascertained.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Financial Condition

Cash flows from operations during the nine months ended April 30, 1994 exceeded capital expenditures and dividends paid, resulting in a net increase of cash and cash equivalents of \$7.3 million. Working capital increased during the nine months by \$11.4 million to \$23.6 million at April 30, 1994. The Company's long-term debt now represents 54.8% of total capitalization as compared to 63.3% at July 31, 1993. At April 30, 1994, the Company had \$25 million of borrowing capacity under the Credit Agreement which can be used for short term working capital needs. The Company believes that these sources of

funds, together with future cash flows from operations, should provide sufficient resources, financial strength and flexibility for the Company to satisfy its liquidity needs, capital requirements, and debt service obligation and to permit the payment of dividends for at least the next few years.

Net cash provided by operating activities amounted to \$27.9 million in the first nine months of fiscal 1994, as compared to \$15.9 million in the same period of the prior year. The principal reason for the increase in cash provided from operations was the improvement in earnings.

Cash flows used for investing activities were \$18.5 million in the first nine months of fiscal 1994, as compared to \$13.3 million in the same period of the prior year, all of which were for capital expenditures. Fiscal 1994 capital expenditures are projected to total \$24 million, of which expenditures of \$13 million are for carry-over projects from the prior year, principally for a diesel desulfurization unit at the Montana refinery and for asphalt tankage in Phoenix, Arizona. The Company has adopted capital budgets totalling \$11 million for fiscal 1994, of which \$8 million is principally for refinery projects at the New Mexico refinery and the balance of which is for oil and gas exploration. In order to meet the October 1993 lower sulphur content standard for diesel fuel, diesel desulfurization units were completed at the Artesia, New Mexico facility in August 1993 and at the Montana refinery in October 1993. While it is not possible to anticipate fully the effects of future regulatory requirements on capital expenditures, the Company believes that capital expenditures in the near future should be lower than expenditures incurred in the past few years.

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#### HOLLY CORPORATION

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Cash flows used for financing activities amounted to \$2.1 million in the first nine months of fiscal 1994, as compared to \$2.6 million in the same period of the prior year. The Company had \$10.5 million of borrowings outstanding under its Credit Agreement as of July 31, 1992 of which \$.7 million was paid off during the nine months ended April 30, 1993, and the remaining balance was paid off during the fourth quarter of fiscal 1993. The first principal payment of \$5.6 million on the Senior Notes is due in June 1994.

In July 1993, the United States Department of Justice ("DOJ"), acting on behalf of the Environmental Protection Agency ("EPA"), filed a complaint in the United States District Court for the District of New Mexico alleging that the Company's subsidiary, Navajo Refining Company, beginning in September 1990 and continuing through the present, had violated and continues to violate the Resource Conservation and Recovery Act ("RCRA") and implementing regulations of the EPA by treating, storing and disposing of certain hazardous wastes without compliance with regulatory requirements. The complaint seeks a court order directing Navajo to comply with certain regulatory standards and civil penalties for the alleged non-compliance.

As previously disclosed, net income for the 1993 fiscal year included a pre-tax reserve of \$2 million in connection with this matter. The Company continues to be involved in pursuit of a negotiated resolution.

While the Company remains optimistic that such a resolution will be achieved, it is not presently determinable whether this matter's ultimate resolution will occur through settlement or litigation. In either case, it is possible that phased closure of all four ponds in Navajo's wastewater treatment system may be required, with the resulting costs of closure and of developing an alternative means of treating and disposing of the refinery's wastewater.

Despite extensive analysis, continued consultation with the Company's counsel and consultants and further discussions with the DOJ and the EPA, it

remains unclear what may be the ultimate cost of pond closure and development of an alternative wastewater treatment facility. The previously disclosed range for the costs of full pond closure, between \$3.5 and \$9.0 million, remains the Company's best estimate, although it now appears more likely the cost will approach the lower end of this range. With respect to the alternative treatment system, the low end of the range, \$2 million, remains the same, while the upper end of the range, previously \$7 million, may be higher, perhaps approaching \$12 million. Where within this range the cost may ultimately fall is not presently determinable.

If these costs were to be incurred, they would likely be borne over a period of several years and would be reflected as an expense or capitalized, as appropriate, for the period for which the cost is properly allocable. These estimates do not include the cost of any possible civil penalty, the amount of which cannot be presently ascertained.

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HOLLY CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In December 1993, Diamond Shamrock, Inc., an independent refiner and retailer, announced its intention to build a 400-mile 10-inch pipeline, with initial capacity of 32,000 barrels per day of refined products, from its McKee refinery near Dumas, Texas to El Paso, Texas. Such a pipeline, which Diamond Shamrock has stated it anticipates to complete in the spring of 1995, could substantially increase the supply of product in the Company's markets.

Results of Operations

Net income for the third quarter ended April 30, 1994 was \$8.7 million, as compared to \$4.7 million for the third quarter of the prior year. For the nine months ended April 30, 1994, net income was \$21.3 million, as compared to \$9.3 million for the nine months in the same period of fiscal 1993 before an accounting charge. The cumulative effect through the 1992 fiscal year of adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which amends the accounting for income taxes from the deferral method to the liability method, was to decrease net income by \$1.0 million, from \$9.3 million to \$8.3 million for the nine months ended April 30, 1993.

The increases in net income in the third quarter and the nine months ended April 30, 1994, over the comparable periods in the prior year, are due primarily to improved refinery margins. The increased refinery margins resulted from crude oil cost decreases in both periods which exceeded declines in product prices. Revenues for both the quarter and nine months ended April 30, 1994 decreased, primarily as a result of declines in product price levels. Sales of refined products for the third quarter were at a record level of 73,100 barrels-per-day.

Since the end of the Company's third quarter, refinery margins have narrowed as crude oil prices have advanced sharply and refined product prices have not kept pace with crude oil costs.

Income tax expense as a percentage of pre-tax income was lower for the prior year's nine month period because of the effect of a state tax refund.

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HOLLY CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In July 1993, the United States Department of Justice, acting on behalf of the EPA, filed a complaint in the United States District Court for the District of New Mexico alleging that the Company's subsidiary, Navajo Refining Company, beginning in September 1990 and continuing until the present, had violated and continues to violate the Resource Conservation and Recovery Act (RCRA) and implementing regulations of the EPA by treating, storing and disposing of certain hazardous wastes without necessary authorization and without compliance with regulatory requirements. The complaint seeks a court order directing Navajo to comply with these regulatory standards and civil penalties for the alleged non-compliance. Navajo has answered the complaint, denying all the allegations of legal liability and asserting affirmative defenses. Discovery is in an early stage. While the Company and Navajo intend to contest the Government's case as necessary and appropriate, the Company is presently engaged in settlement discussions. For additional discussion concerning this matter, please see Management's Discussion and Analysis of Financial Condition and Results of Operations and Note B to the Consolidated Financial Statements.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits: None.
- (b) Reports on Form 8-K: None.

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SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOLLY CORPORATION  
(Registrant)

Date: June 13, 1994

By /S/HENRY A. TEICHHOLZ  
Henry A. Teichholz  
Vice President, Treasurer  
and Controller  
(Duly Authorized Principal  
Financial and Accounting  
Officer)

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