

CVR ENERGY INC
Form 10-Q
August 01, 2014
Table of Contents

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 June 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: 001-33492

CVR ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware 61-1512186
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2277 Plaza Drive, Suite 500
Sugar Land, Texas 77479
(Address of principal executive offices) (Zip Code)

(281) 207-3200
(Registrant's telephone number, including area code)

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

Edgar Filing: CVR ENERGY INC - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer
(Do not check if smaller
reporting company.)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

There were 86,831,050 shares of the registrant’s common stock outstanding at July 28, 2014.

CVR ENERGY, INC. AND SUBSIDIARIES

INDEX TO QUARTERLY REPORT ON FORM 10-Q
For The Quarter Ended June 30, 2014

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	<u>6</u>
<u>Condensed Consolidated Balance Sheets - June 30, 2014 (unaudited) and December 31, 2013</u>	<u>6</u>
<u>Condensed Consolidated Statements of Operations - Three and Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	<u>8</u>
<u>Condensed Consolidated Statement of Changes in Equity - Six Months Ended June 30, 2014 (unaudited)</u>	<u>9</u>
<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2014 and 2013 (unaudited)</u>	<u>10</u>
<u>Notes to the Condensed Consolidated Financial Statements - June 30, 2014 (unaudited)</u>	<u>12</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>70</u>
<u>Item 4. Controls and Procedures</u>	<u>71</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>72</u>
<u>Item 1A. Risk Factors</u>	<u>72</u>
<u>Item 6. Exhibits</u>	<u>72</u>
<u>Signatures</u>	<u>73</u>

Table of Contents

GLOSSARY OF SELECTED TERMS

The following are definitions of certain terms used in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (this “Report”).

2-1-1 crack spread — The approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate. The 2-1-1 crack spread is expressed in dollars per barrel.

ammonia — Ammonia is a direct application fertilizer and is primarily used as a building block for other nitrogen products for industrial applications and finished fertilizer products.

barrel — Common unit of measure in the oil industry which equates to 42 gallons.

blendstocks — Various compounds that are combined with gasoline or diesel from the crude oil refining process to make finished gasoline and diesel fuel; these may include natural gasoline, fluid catalytic cracking unit or FCCU gasoline, ethanol, reformat or butane, among others.

bpd — Abbreviation for barrels per day.

bpcd — Abbreviation for barrels per calendar day, which refers to the total number of barrels processed in a refinery within a year, divided by 365 days, thus reflecting all operational and logistical limitations.

bulk sales — Volume sales through third-party pipelines, in contrast to tanker truck quantity rack sales.

capacity — Capacity is defined as the throughput a process unit is capable of sustaining, either on a calendar or stream day basis. The throughput may be expressed in terms of maximum sustainable, nameplate or economic capacity. The maximum sustainable or nameplate capacities may not be the most economical. The economic capacity is the throughput that generally provides the greatest economic benefit based on considerations such as feedstock costs, product values and downstream unit constraints.

catalyst — A substance that alters, accelerates, or instigates chemical changes, but is neither produced, consumed nor altered in the process.

corn belt — The primary corn producing region of the United States, which includes Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio and Wisconsin.

crack spread — A simplified calculation that measures the difference between the price for light products and crude oil. For example, the 2-1-1 crack spread is often referenced and represents the approximate gross margin resulting from processing two barrels of crude oil to produce one barrel of gasoline and one barrel of distillate.

distillates — Primarily diesel fuel, kerosene and jet fuel.

ethanol — A clear, colorless, flammable oxygenated hydrocarbon. Ethanol is typically produced chemically from ethylene, or biologically from fermentation of various sugars from carbohydrates found in agricultural crops and cellulosic residues from crops or wood. It is used in the United States as a gasoline octane enhancer and oxygenate.

farm belt — Refers to the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

feedstocks — Petroleum products, such as crude oil and natural gas liquids, that are processed and blended into refined products, such as gasoline, diesel fuel and jet fuel, during the refining process.

Group 3 — A geographic subset of the PADD II region comprising refineries in Oklahoma, Kansas, Missouri, Nebraska and Iowa. Current Group 3 refineries include the Refining Partnership’s Coffeyville and Wynnewood refineries; the Valero Ardmore refinery in Ardmore, OK; HollyFrontier’s Tulsa refinery in Tulsa, OK and El Dorado refinery in El Dorado, KS; Phillips 66’s Ponca City refinery in Ponca City, OK; and NCRA’s refinery in McPherson, KS.

heavy crude oil — A relatively inexpensive crude oil characterized by high relative density and viscosity. Heavy crude oils require greater levels of processing to produce high value products such as gasoline and diesel fuel.

Table of Contents

independent petroleum refiner — A refiner that does not have crude oil exploration or production operations. An independent refiner purchases the crude oil used as feedstock in its refinery operations from third parties.

light crude oil — A relatively expensive crude oil characterized by low relative density and viscosity. Light crude oils require lower levels of processing to produce high value products such as gasoline and diesel fuel.

Magellan — Magellan Midstream Partners L.P., a publicly traded company whose business is the transportation, storage and distribution of refined petroleum products.

MMBtu — One million British thermal units or Btu: a measure of energy. One Btu of heat is required to raise the temperature of one pound of water one degree Fahrenheit.

MSCF — One thousand standard cubic feet, a customary gas measurement unit.

natural gas liquids — Natural gas liquids, often referred to as NGLs, are feedstocks used in the manufacture of refined fuels, as well as products of the refining process. Common NGLs used include propane, isobutane, normal butane and natural gasoline.

Nitrogen Fertilizer Partnership IPO — The initial public offering of 22,080,000 common units representing limited partner interests of CVR Partners, LP (the “Nitrogen Fertilizer Partnership”), which closed on April 13, 2011.

PADD II — Midwest Petroleum Area for Defense District which includes Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, and Wisconsin.

petroleum coke (pet coke) — A coal-like substance that is produced during the refining process.

product pricing at gate — Product pricing at gate per ton represents net sales less freight revenue divided by product sales volume in tons.

rack sales — Sales which are made at terminals into third-party tanker trucks.

refined products — Petroleum products, such as gasoline, diesel fuel and jet fuel, that are produced by a refinery.

Refining Partnership IPO — The initial public offering of 27,600,000 common units representing limited partner interests of CVR Refining, LP (the “Refining Partnership”), which closed on January 23, 2013 (which includes the underwriters’ subsequently-exercised option to purchase additional common units).

Secondary Offering — The registered public offering of 12,000,000 common units representing limited partner interests of the Nitrogen Fertilizer Partnership, which closed on May 28, 2013.

Second Underwritten Offering — The second underwritten offering of 7,475,000 common units of the Refining Partnership, which closed on June 30, 2014 (which includes the underwriters’ subsequently-exercised option to purchase additional common units).

sour crude oil — A crude oil that is relatively high in sulfur content, requiring additional processing to remove the sulfur. Sour crude oil is typically less expensive than sweet crude oil.

sweet crude oil — A crude oil that is relatively low in sulfur content, requiring less processing to remove the sulfur. Sweet crude oil is typically more expensive than sour crude oil.

throughput — The volume processed through a unit or a refinery or transported on a pipeline.

turnaround — A periodically required standard procedure to inspect, refurbish, repair and maintain the refinery or nitrogen fertilizer plant assets. This process involves the shutdown and inspection of major processing units and occurs every four to five years for the refineries and every two to three years for the nitrogen fertilizer plant.

UAN — An aqueous solution of urea and ammonium nitrate used as a fertilizer.

Table of Contents

Underwritten Offering — The underwritten offering of 13,209,236 common units of the Refining Partnership, which closed on May 20, 2013 (which includes the underwriters' subsequently-exercised option to purchase additional common units).

WCS — Western Canadian Select crude oil, a medium to heavy, sour crude oil, characterized by an American Petroleum Institute gravity ("API gravity") of between 20 and 22 degrees and a sulfur content of approximately 3.3 weight percent.

WTI — West Texas Intermediate crude oil, a light, sweet crude oil, characterized by an API gravity between 39 and 41 degrees and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

WTS — West Texas Sour crude oil, a relatively light, sour crude oil, characterized by an API gravity of between 30 and 32 degrees and a sulfur content of approximately 2.0 weight percent.

yield — The percentage of refined products that is produced from crude oil and other feedstocks.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(unaudited)	
	(in millions, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$998.7	\$842.1
Accounts receivable, net of allowance for doubtful accounts of \$0.5 and \$0.9, respectively	248.9	241.9
Inventories	528.7	526.6
Prepaid expenses and other current assets	222.9	82.5
Income tax receivable	—	10.8
Deferred income taxes	12.6	27.8
Total current assets	2,011.8	1,731.7
Property, plant, and equipment, net of accumulated depreciation	1,894.2	1,864.4
Intangible assets, net	0.2	0.3
Goodwill	41.0	41.0
Deferred financing costs, net	9.8	11.2
Other long-term assets	22.5	17.2
Total assets	\$3,979.5	\$3,665.8
LIABILITIES AND EQUITY		
Current liabilities:		
Note payable and capital lease obligations	\$1.3	\$1.3
Accounts payable	397.4	377.9
Personnel accruals	43.7	45.8
Accrued taxes other than income taxes	29.3	31.5
Due to parent	28.0	0.1
Deferred revenue	0.4	0.7
Other current liabilities	55.5	44.2
Total current liabilities	555.6	501.5
Long-term liabilities:		
Long-term debt and capital lease obligations, net of current portion	674.2	674.9
Accrued environmental liabilities, net of current portion	1.1	1.2
Deferred income taxes	600.4	601.7
Other long-term liabilities	44.4	51.1
Total long-term liabilities	1,320.1	1,328.9
Commitments and contingencies		
Equity:		
CVR stockholders' equity:		
Common stock \$0.01 par value per share, 350,000,000 shares authorized, 86,929,660 shares issued	0.9	0.9
Additional paid-in-capital	1,166.8	1,114.4

Edgar Filing: CVR ENERGY INC - Form 10-Q

Retained earnings	155.9	76.2	
Treasury stock, 98,610 shares at cost	(2.3	) (2.3)
Accumulated other comprehensive loss, net of tax	(0.5	) (0.6)
Total CVR stockholders' equity	1,320.8	1,188.6	
Noncontrolling interest	783.0	646.8	
Total equity	2,103.8	1,835.4	
Total liabilities and equity	\$3,979.5	\$3,665.8	

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
	(in millions, except per share data)			
Net sales	\$2,540.3	\$2,220.3	\$4,987.8	\$4,572.7
Operating costs and expenses:				
Cost of product sold (exclusive of depreciation and amortization)	2,189.0	1,785.4	4,265.9	3,599.0
Direct operating expenses (exclusive of depreciation and amortization)	120.1	108.3	243.5	216.8
Selling, general and administrative expenses (exclusive of depreciation and amortization)	28.0	28.9	54.4	57.4
Depreciation and amortization	38.6	35.0	75.9	69.2
Total operating costs and expenses	2,375.7	1,957.6	4,639.7	3,942.4
Operating income	164.6	262.7	348.1	630.3
Other income (expense):				
Interest expense and other financing costs	(9.3	) (12.5	) (19.4	) (27.9
Interest income	0.2	0.3	0.4	0.6
Gain on derivatives, net	35.9	120.5	145.3	100.5
Loss on extinguishment of debt	—	—	—	(26.1
Other income (expense), net	(2.2	) 0.2	(2.1	) 0.3
Total other income	24.6	108.5	124.2	47.4
Income before income taxes	189.2	371.2	472.3	677.7
Income tax expense	45.2	99.5	114.6	193.3
Net income	144.0	271.7	357.7	484.4
Less: Net income attributable to noncontrolling interest	60.3	88.3	147.3	136.0
Net income attributable to CVR Energy stockholders	\$83.7	\$183.4	\$210.4	\$348.4
Basic earnings per share	\$0.96	\$2.11	\$2.42	\$4.01
Diluted earnings per share	\$0.96	\$2.11	\$2.42	\$4.01
Dividends declared per share	\$0.75	\$7.25	\$1.50	\$12.75
Weighted-average common shares outstanding:				
Basic	86.8	86.8	86.8	86.8
Diluted	86.8	86.8	86.8	86.8

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(unaudited)			
	(in millions)			
Net income	\$144.0	\$271.7	\$357.7	\$484.4
Other comprehensive income:				
Unrealized gain on available-for-sale securities, net of tax of \$0, \$0.9, \$0 and \$0.9	—	1.4	—	1.4
Change in fair value of interest rate swap, net of tax of \$0, \$0.1, \$(0.1) and \$0.1	(0.1	) 0.1	(0.1	) 0.1
Net loss reclassified into income on settlement of interest rate swap, net of tax of \$0.1, \$0.1, \$0.1 and \$0.2 (Note 12)	0.2	0.2	0.4	0.3
Total other comprehensive income	0.1	1.7	0.3	1.8
Comprehensive income	144.1	273.4	358.0	486.2
Less: Comprehensive income attributable to noncontrolling interest	60.4	88.5	147.5	136.3
Comprehensive income attributable to CVR Energy stockholders	\$83.7	\$184.9	\$210.5	\$349.9

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Common Stockholders		Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total CVR Stockholders' Equity	Noncontrolling Interest	Total Equity	
Shares Issued	\$0.01 Par Value Common Stock	Additional Paid-In Capital							
(unaudited)									
(in millions, except share data)									
Balance at December 31, 2013	86,929,660	\$ 0.9	\$ 1,114.4	\$ 76.2	\$ (2.3)	\$ (0.6)	\$ 1,188.6	\$ 646.8	\$ 1,835.4
June issuance of CVR Refining's common units to the public, net of \$34.2 million tax impact	—	—	52.3	—	—	—	52.3	77.2	129.5
Dividends paid to CVR Energy stockholders	—	—	—	(130.2)	—	—	(130.2)	—	(130.2)
Distributions from CVR Partners to public unitholders	—	—	—	—	—	—	—	(27.7)	(27.7)
Distributions from CVR Refining to public unitholders	—	—	—	—	—	—	—	(61.2)	(61.2)
Share-based compensation	—	—	0.1	(0.5)	—	—	(0.4)	0.4	—
Net income	—	—	—	210.4	—	—	210.4	147.3	357.7
Net gain on interest rate swaps, net of tax	—	—	—	—	—	0.1	0.1	0.2	0.3
Balance at June 30, 2014	86,929,660	\$ 0.9	\$ 1,166.8	\$ 155.9	\$ (2.3)	\$ (0.5)	\$ 1,320.8	\$ 783.0	\$ 2,103.8

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	
	2014	2013
	(unaudited)	
	(in millions)	
Cash flows from operating activities:		
Net income	\$357.7	\$484.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75.9	69.2
Allowance for doubtful accounts	(0.4	) 0.6
Amortization of deferred financing costs	1.4	1.5
Deferred income taxes	(25.1	) (101.2
Loss on disposition of assets	0.4	—
Loss on extinguishment of debt	—	26.1
Share-based compensation	8.9	10.3
Gain on derivatives, net	(145.3	) (100.5
Current period settlements on derivative contracts	55.0	(37.8
Changes in assets and liabilities:		
Accounts receivable	(6.6	) (67.1
Inventories	(2.1	) (60.7
Prepaid expenses and other current assets	6.3	6.9
Insurance receivable	—	1.3
Other long-term assets	(0.9	) (0.2
Accounts payable	28.6	(41.9
Due to parent	27.9	128.1
Accrued income tax	11.0	13.8
Deferred revenue	(0.3	) 0.5
Other current liabilities	13.1	47.9
Accrued environmental liabilities	(0.1	) (0.2
Other long-term liabilities	0.1	—
Net cash provided by operating activities	405.5	381.0
Cash flows from investing activities:		
Capital expenditures	(114.9	) (114.6
Proceeds from sale of assets	0.2	0.1
Purchase of available-for-sale securities	(78.3	) (18.6
Net cash used in investing activities	(193.0	) (133.1
Cash flows from financing activities:		
Payment of capital lease obligations	(0.7	) (0.6
Payments on senior secured notes	—	(243.4
Payment of financing costs	—	(0.2
Proceeds from CVR Refining's initial public offering, net of offering costs	—	655.7
Proceeds from CVR Refining's May 2013 offering, net of offering costs	—	393.7
Proceeds from the sale of CVR Refining's common units to AEPC	—	61.5
Proceeds from CVR Refining's June 2014 offering, net of offering costs	163.9	—
Proceeds from CVR Partners' secondary offering, net of offering costs	—	292.6
Redemption of common units	—	(0.2

Edgar Filing: CVR ENERGY INC - Form 10-Q

Dividends to CVR Energy's stockholders	(130.2	) (1,107.1)
Distributions to CVR Refining's noncontrolling interest holders	(61.2	) (43.6)
Distributions to CVR Partners' noncontrolling interest holders	(27.7	) (17.8)
Net cash used in financing activities	(55.9	) (9.4)
Net increase in cash and cash equivalents	156.6	238.5	
Cash and cash equivalents, beginning of period	842.1	896.0	
Cash and cash equivalents, end of period	\$998.7	\$1,134.5	

10

CVR ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)