Delek US Holdings, Inc.
Form 10-Q
May 06, 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 March 31, 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 o 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<br>(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 May 3, 2011, there were 57,775,004 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)

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| | (In millions, except share and per share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 110.7 | $ 49.1 |
| Accounts receivable | 155.7 | 104.7 |
| Inventory | 127.9 | 136.7 |
| Other current assets | 14.2 | 8.9 |
| Total current assets | 408.5 | 299.4 |
| Property, plant and equipment: | | |
| Property, plant and equipment | 893.3 | 886.7 |
| Less: accumulated depreciation | (218.6) | (206.6) |
| Property, plant and equipment, net | 674.7 | 680.1 |
| Goodwill | 71.9 | 71.9 |
| Other intangibles, net | 7.5 | 7.9 |
| Minority investment | 71.6 | 71.6 |
| Other non-current assets | 12.4 | 13.7 |
| Total assets | $ 1,246.6 | $ 1,144.6 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 296.6 | $ 222.9 |
| Current portion of long-term debt and capital lease obligations | 16.1 | 14.1 |
| Accrued expenses and other current liabilities | 76.0 | 55.5 |
| Total current liabilities | 388.7 | 292.5 |
| Non-current liabilities: | | |
| Long-term debt and capital lease obligations, net of current portion | 217.6 | 237.7 |
| Note payable to related party | 44.0 | 44.0 |
| Environmental liabilities, net of current portion | 2.7 | 2.8 |
| Asset retirement obligations | 7.2 | 7.3 |
| Deferred tax liabilities | 116.6 | 105.9 |
| Other non-current liabilities | 10.8 | 11.1 |
| Total non-current liabilities | 398.9 | 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, 54,459,013 shares and 54,403,208 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively | | 0.5 | | 0.5 |
| Additional paid-in capital | | 288.4 | | 287.5 |
| Retained earnings | | 170.1 | | 155.3 |
| Total shareholders equity | | 459.0 | | 443.3 |
| Total liabilities and shareholders equity | $ | 1,246.6 | $ | 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 March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| | (In millions, except share and per share data) | |
| Net sales | $ 1,143.5 | $ 892.9 |
| Operating costs and expenses: | | |
| Cost of goods sold | 1,014.2 | 820.7 |
| Operating expenses | 60.2 | 56.1 |
| Property damage expenses, net | | 0.2 |
| General and administrative expenses | 18.3 | 15.3 |
| Depreciation and amortization | 14.9 | 14.5 |
| Loss (gain) on sale of assets | 0.6 | (0.5) |
| Total operating costs and expenses | 1,108.2 | 906.3 |
| Operating income (loss) | 35.3 | (13.4) |
| Interest expense | 7.3 | 8.7 |
| Income (loss) before income taxes | 28.0 | (22.1) |
| Income tax expense (benefit) | 11.1 | (8.0) |
| Net income (loss) | $ 16.9 | $ (14.1) |
| Basic earnings (loss) per share | $ 0.31 | $ (0.26) |
| Diluted earnings (loss) per share | $ 0.31 | $ (0.26) |
| Weighted average common shares outstanding: | | |
| Basic | 54,412,207 | 53,920,639 |
| Diluted | 54,567,765 | 53,920,639 |
| Dividends declared per common share outstanding | $ 0.0375 | $ 0.0375 |

See accompanying notes to the condensed consolidated financial statements

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

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| | (In millions, except per share data) | |
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 16.9 | $ (14.1) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 14.9 | 14.5 |
| Amortization of deferred financing costs | 0.9 | 2.0 |
| Accretion of asset retirement obligations | 0.1 | 0.1 |
| Deferred income taxes | 10.5 | (1.4) |
| Loss (gain) on sale of assets | 0.6 | (0.5) |
| Loss on involuntary conversion of assets | | 0.2 |
| Stock-based compensation expense | 0.4 | 1.0 |
| Income tax benefit of stock-based compensation | | (2.2) |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | (51.0) | (29.6) |
| Inventories and other current assets | 3.7 | 1.0 |
| Accounts payable and other current liabilities | 94.2 | 21.6 |
| Non-current assets and liabilities, net | | (0.7) |
| Net cash provided by (used in) operating activities | 91.2 | (8.1) |
| **Cash flows from investing activities:** | | |
| Purchases of property, plant and equipment | (12.0) | (9.6) |
| Expenditures to rebuild refinery | | (0.2) |
| Proceeds from sales of convenience store assets | 2.3 | 4.3 |
| Net cash used in investing activities | (9.7) | (5.5) |
| **Cash flows from financing activities:** | | |
| Proceeds from long-term revolvers | 151.2 | 200.6 |
| Payments on long-term revolvers | (167.3) | (197.7) |
| Payments on debt and capital lease obligations | (2.0) | (6.5) |
| Proceeds from exercise of stock options | 0.5 | |
| Taxes paid in connection with settlement of share purchase rights | | (2.5) |
| Income tax benefit of stock-based compensation | | 2.2 |
| Dividends paid | (2.1) | (2.0) |
| Deferred financing costs paid | (0.2) | (8.6) |
| Net cash used in financing activities | (19.9) | (14.5) |
| Net increase (decrease) in cash and cash equivalents | 61.6 | (28.1) |
| Cash and cash equivalents at the beginning of the period | 49.1 | 68.4 |
| Cash and cash equivalents at the end of the period | $ 110.7 | $ 40.3 |

| | | | | |
|---|---|---|---|---|
| **Supplemental disclosures of cash flow information:** | | | | |
| Cash paid during the period for: | | | | |
| Interest, net of capitalized interest of a nominal amount in both the 2011 and 2010 periods | $ | 6.4 | $ | 4.1 |
| Income taxes | $ | | $ | |

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 ), M Fleet, Inc. ( Fleet ), Delek Refining, Inc. ( Refining ), Delek Finance, Inc. ( Finance ) and Delek Marketing & Supply, Inc ( Marketing ), (collectively, the Subsidiaries ).

We are a Delaware corporation formed in connection with our acquisition in May 2001 of 198 retail fuel and convenience stores from a subsidiary of the Williams Companies. Since then, we have completed several other acquisitions of retail fuel and convenience stores. In April 2005, we expanded our scope of operations to include complementary petroleum refining and wholesale and distribution businesses by acquiring a refinery in Tyler, Texas. We initiated operations of our marketing segment in August 2006 with the purchase of assets from Pride Companies LP and affiliates ( Pride Acquisition ). Delek and Express were incorporated during April 2001 in the State of Delaware. Fleet, Refining, Finance, and Marketing were incorporated in the State of Delaware during January 2004, February 2005, April 2005 and June 2006, respectively.

Delek is listed on the New York Stock Exchange ( NYSE ) under the symbol DK. As of March 31, 2011, approximately 73.0% 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. Some individuals have claimed injury and two of our employees died as a result of the event. 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. While we had not finalized our insurance claims as of March 31, 2010, we did not receive any insurance proceeds in the first quarter of 2010. We settled all outstanding property damage and business interruption insurance claims in the second quarter of 2010.

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## 3. Inventory

Carrying value of inventories consisted of the following (in millions):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Refinery raw materials and supplies | $ 22.4 | $ 29.5 |
| Refinery work in process | 31.1 | 31.5 |
| Refinery finished goods | 16.7 | 18.9 |
| Retail fuel | 17.7 | 20.2 |
| Retail merchandise | 26.3 | 28.3 |
| Marketing refined products | 13.7 | 8.3 |
| Total inventories | $ 127.9 | $ 136.7 |

At March 31, 2011 and December 31, 2010, the excess of replacement cost (FIFO) over the carrying value (LIFO) of refinery inventories was $48.3 million and $36.6 million, respectively.

***Permanent Liquidations***

During the three months ended March 31, 2011, we incurred a permanent reduction in the LIFO layer resulting in a liquidation gain in our refinery inventory in the amount of $3.8 million. This liquidation was recognized as a component of cost of goods sold in the three months ended March 31, 2011.

During the three months ended March 31, 2010, we incurred a permanent reduction in the LIFO layer resulting in a liquidation loss in our refinery finished goods inventory in the amount of $3.1 million. This liquidation was recognized as a component of cost of goods sold in the three months ended March 31, 2010.

## 4. Investment in Lion Oil Company

In 2007, Delek acquired approximately 34.6% of the issued and outstanding shares of common stock of Lion Oil Company ( Lion Oil ), a privately held Arkansas corporation. Lion Oil owns and operates an 80,000 bpd crude oil refinery in El Dorado, Arkansas, three crude oil pipelines, a crude oil gathering system and two refined petroleum product terminals in Memphis and Nashville, Tennessee. The two terminals supply products to some of Delek s 180 convenience stores in the Memphis and Nashville markets. These product purchases totaled $3.1 million and $3.5 million during the three months ended March 31, 2011 and 2010, respectively. The refining segment also made sales of $0.6 million of intermediate products to the Lion Oil refinery during the three months ended March 31, 2011. There were no sales made by the refining segment to the Lion Oil refinery during the three months ended March 31, 2010. These product purchases and sales were made at market values.

This investment in a non-public entity is carried at cost, and is only reviewed for a diminishment of fair value in the instance when there are indicators that a possible impairment has occurred. Delek carried its investment in Lion Oil at $71.6 million as of both March 31, 2011 and December 31, 2010. We do not believe any impairment of this investment existed as of March 31, 2011.

In March 2011, Delek agreed to acquire 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., the former majority shareholder ( Ergon ). On April 29, 2011, this transaction closed, bringing Delek s interest in Lion Oil to 88.3%. Delek will report Lion Oil as part of its consolidated group. See Note 15 for further information.

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**5. 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):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| MAPCO Revolver | $ 101.6 | $ 122.1 |
| Fifth Third Revolver | 33.4 | 29.0 |
| Promissory notes | 142.0 | 144.0 |
| Capital lease obligations | 0.7 | 0.7 |
| | 277.7 | 295.8 |
| Less: Current portion of long-term debt, notes payable and capital lease obligations | 16.1 | 14.1 |
| | $ 261.6 | $ 281.7 |

***MAPCO Revolver***

On December 23, 2010, we executed a $200.0 million revolving credit facility ( MAPCO Revolver ) that includes (i) a $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 March 31, 2011, we had $101.6 million outstanding under the MAPCO Revolver, as well as letters of credit issued of $27.9 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 March 31, 2011, the weighted average borrowing rate was 4.29%. Additionally, the MAPCO Revolver requires us to pay a leverage ratio dependent quarterly fee on the average unused revolving commitment. As of March 31, 2011, this fee was 0.75% per year. Amounts available under the MAPCO Revolver as of March 31, 2011 were approximately $70.6 million.

***Wells ABL***

On February 23, 2010, we executed a $300 million asset-based loan ( ABL ) revolving credit facility ( Wells ABL ) that includes (i) a $300 million revolving credit line, (ii) a $30 million swing line loan sub-limit, (iii) a $300 million letter of credit sub-limit, and (iv) an accordion feature which permits an increase in facility size of up to $600 million subject to additional lender commitments. The Wells ABL replaced and terminated a $300.0 million ABL revolver with another lender. As of March 31, 2011, we had letters of credit issued under the facility totaling approximately $203.0 million and no 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. The Wells ABL matures on February 23, 2014. 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 March 31, 2011, this fee was 1.00% per year. Borrowing capacity, as calculated and reported under the terms of the Wells ABL credit facility, net of a $15.0 million availability reserve requirement, as of March 31, 2011 was $97.0 million. This facility was amended in April 2011. See Note 15 for further information.

***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 March 31, 2011, we had $33.4 million outstanding borrowings under the facility, as well as letters of credit issued of $13.5 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 March 31, 2011, the weighted average borrowing rate was approximately 4.90%. Additionally, the Fifth Third Revolver requires us to pay a quarterly fee of 0.5% per year on the average available revolving commitment. Amounts available under the Fifth Third Revolver as of March 31, 2011 were approximately $28.1 million.

***Reliant Bank Revolver***

We have a revolving credit agreement with Reliant Bank ( Reliant Bank Revolver ) that provides for unsecured loans of up to $12.0 million. As of March 31, 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%. As of March 31, 2011, we had $12.0 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 ). As of March 31, 2011, we had $50.0 million 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 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 March 31, 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 ). As of March 31, 2011, we had $48.0 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 our shares in Lion Oil Company. 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 March 31, 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 ( Petroleum Note ) in the principal amount of $44.0 million, replacing a Delek Petroleum note in the original principal amount of $65.0 million. As of March 31, 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 matures on January 1, 2012 and bears interest, payable on a quarterly basis, at 8.25% (excluding any applicable withholding taxes). This note was amended in April 2011 to extend the maturity date to January 1, 2013. See Note 15 for further information.

***Letters of Credit***

As of March 31, 2011, Delek had letters of credit in place totaling approximately $246.3 million under certain of our credit facilities with various financial institutions securing obligations with respect to its workers compensation self-insurance programs, as well as obligations with respect to its purchases of crude oil for the Tyler refinery and gasoline and diesel products for the marketing and retail segments. No amounts were outstanding under these facilities at March 31, 2011.

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**6. Income Taxes**

At March 31, 2011, Delek had unrecognized tax benefits of $0.6 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 and $0.1 million was recognized related to unrecognized tax benefits during the three months ended March 31, 2011 and 2010, respectively.

**7. Shareholders Equity**

***Dividends Paid***

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.

***Net Share Settlement***

On February 21, 2010, our Chief Executive Officer exercised 1,319,493 share purchase rights awarded as part of his previous employment agreement dated as of May 1, 2004, in connection with a net share settlement. As a result, 638,909 shares of common stock were issued to him and 680,584 shares of common stock were withheld as a partial cashless exercise and to pay withholding taxes.

***Comprehensive Income***

Comprehensive income for the three months ended March 31, 2011 and 2010 was equivalent to net income.

**8. Stock Based Compensation**

***Compensation Expense Related to Equity-based Awards***

Compensation expense for the equity-based awards amounted to $0.4 million ($0.3 million, net of taxes) and $1.0 million ($0.7 million, net of taxes) for the three months ended March 31, 2011 and 2010, respectively. These amounts are included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

As of March 31, 2011, there was $3.2 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 1.1 years.

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**9. 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:

| | For the Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| Weighted average common shares outstanding | 54,412,207 | 53,920,639 |
| Dilutive effect of equity instruments | 155,558 | |
| Weighted average common shares outstanding, assuming dilution | 54,567,765 | 53,920,639 |

Outstanding stock options totaling 2,630,873 and 3,556,632 common share equivalents were excluded from the diluted earnings per share calculation for the three months ended March 31, 2011 and 2010, respectively. These share equivalents did not have a dilutive effect under the treasury stock method. Outstanding stock options totaling 43,906 were also excluded from the diluted earnings per share calculation for the three months ended March 31, 2010 because of their anti-dilutive effect due to the net loss for the period.

**10. 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 that is transported through our crude oil pipeline and an unrelated third-party pipeline. The refinery processes the crude and other purchased feedstocks for the manufacture of transportation motor fuels including various grades of gasoline, diesel fuel, aviation fuel and other petroleum-based products that are distributed through its product terminal located at the refinery.

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 March 31, 2011, we had 404 stores in total, consisting of 219 located in Tennessee, 87 in Alabama, 73 in Georgia, 11 in Arkansas and 8 in Virginia. The remaining 6 stores are located in Kentucky, Louisiana and Mississippi. The retail fuel and convenience stores operate under Delek s brand names MAPCO Express®, MAPCO Mart®, Discount Food Mart™, Fast Food and Fuel™, Favorite Markets® and East Coast® brands. The retail segment also supplied fuel to approximately 61 dealer locations as of March 31, 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 marketing segment to pay service fees based on the number of gallons sold at the Tyler refinery and a sharing of a portion of the marketing margin achieved in return for providing marketing, sales and customer services. This intercompany transaction fee was $2.6 million in both the three months ended March 31, 2011 and 2010. 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 $2.4 million and $2.3 million during the three months ended March 31, 2011 and 2010, respectively. During the three months ended March 31, 2011 and 2010, the refining segment sold finished product to the marketing segment in the amount of $7.9 million and $6.9 million, respectively. All inter-segment transactions have been eliminated in consolidation.

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

| | Three Months Ended March 31, 2011 | | | | |
|---|---|---|---|---|---|
| **(In millions)** | **Refining** | **Retail** | **Marketing** | **Corporate, Other and Eliminations** | **Consolidated** |
| Net sales (excluding intercompany marketing fees and sales) | $ 575.2 | $ 414.2 | $ 154.1 | $ | $ 1,143.5 |
| Intercompany marketing fees and sales | 5.3 | | 5.0 | (10.3) | |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | 496.9 | 375.4 | 149.8 | (7.9) | 1,014.2 |
| Operating expenses | 29.3 | 32.3 | 1.0 | (2.4) | 60.2 |
| Segment contribution margin | $ 54.3 | $ 6.5 | $ 8.3 | $ | 69.1 |
| General and administrative expenses | | | | | 18.3 |
| Depreciation and amortization | | | | | 14.9 |
| Loss on sale of assets | | | | | 0.6 |
| Operating income | | | | | $ 35.3 |
| Total assets | $ 641.9 | $ 412.8 | $ 82.9 | $ 109.0 | $ 1,246.6 |
| Capital spending (excluding business combinations) | $ 3.5 | $ 8.2 | $ | $ 0.3 | $ 12.0 |

| | Three Months Ended March 31, 2010 | | | |
|---|---|---|---|---|
| **(In millions)** | **Refining** | **Retail** | **Marke** | **Corporate, Other and** |