HOLLY CORP
Form 10-Q
November 06, 2009

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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, 2009**

**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 1-3876**

**HOLLY CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 75-1056913 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 100 Crescent Court, Suite 1600 Dallas, Texas | 75201-6915 |
| (Address of principal executive offices) | (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 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 (§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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | 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 Exchange Act). Yes o No þ

50,244,495 shares of Common Stock, par value $.01 per share, were outstanding on October 30, 2009.

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# PART I. FINANCIAL INFORMATION

## FORWARD-LOOKING STATEMENTS

References herein to Holly Corporation include Holly Corporation and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission s ( SEC ) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we, our, ours and us refer only to Holly Corporatio and its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person with certain exceptions. For periods prior to our reconsolidation of Holly Energy Partners, L.P. ( HEP ) effective March 1, 2008, the words we, our, ours and us exclude HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation. Our consolidated financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of Holly Corporation. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under Results of Operations, Liquidity and Capital Resources and Risk Management in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in Part I and those in Item 1 Legal Proceedings in Part II, are forward-looking statements. These statements are based on management s beliefs and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that our expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors, including, but not limited to:

- risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;
- the demand for and supply of crude oil and refined products;
- the spread between market prices for refined products and market prices for crude oil;
- the possibility of constraints on the transportation of refined products;
- the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;
- effects of governmental and environmental regulations and policies;
- the availability and cost of our financing;
- the effectiveness of our capital investments and marketing strategies;
- our efficiency in carrying out construction projects;
- our ability to acquire refined product operations or pipeline and terminal operations on acceptable terms and to integrate any future acquired operations;
- our ability to successfully complete the pending acquisition of the Sinclair refinery and to integrate the operations of the Tulsa refinery and the Sinclair refinery into a single facility and into our business;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and

other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation in conjunction with the forward-looking statements included in this Form 10-Q that are referred to above. This summary discussion should be read in conjunction with the discussion of risk factors and other cautionary statements under the heading Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 and in conjunction with the discussion in this Form 10-Q in Management s Discussion and Analysis of Financial Condition and Results of Operations under the headings Liquidity and Capital Resources. All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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## DEFINITIONS

Within this report, the following terms have these specific meanings:

**Alkylation** means the reaction of propylene or butylene (olefins) with isobutane to form an iso-paraffinic gasoline (inverse of cracking).

**BPD** means the number of barrels per calendar day of crude oil or petroleum products.

**BPSD** means the number of barrels per stream day (barrels of capacity in a 24 hour period) of crude oil or petroleum products.

**Black wax crude oil** is a low sulfur, low gravity crude oil produced in the Uintah Basin in Eastern Utah that has certain characteristics that require specific facilities to transport, store and refine into transportation fuels.

**Catalytic reforming** means a refinery process which uses a precious metal (such as platinum) based catalyst to convert low octane naphtha to high octane gasoline blendstock and hydrogen. The hydrogen produced from the reforming process is used to desulfurize other refinery oils and is the main source of hydrogen for the refinery.

**Cracking** means the process of breaking down larger, heavier and more complex hydrocarbon molecules into simpler and lighter molecules.

**Crude distillation** means the process of distilling vapor from liquid crudes, usually by heating, and condensing slightly above atmospheric pressure the vapor back to liquid in order to purify, fractionate or form the desired products.

**Ethanol** means a high octane gasoline blend stock that is used to make various grades of gasoline.

**FCC**, or fluid catalytic cracking, means a refinery process that breaks down large complex hydrocarbon molecules into smaller more useful ones using a circulating bed of catalyst at relatively high temperatures.

**Hydrocracker** means a refinery unit that breaks down large complex hydrocarbon molecules into smaller more useful ones using a fixed bed of catalyst at high pressure and temperature with hydrogen.

**Hydrodesulfurization** means to remove sulfur and nitrogen compounds from oil or gas in the presence of hydrogen and a catalyst at relatively high temperatures.

**Hydrogen plant** means a refinery unit that converts natural gas and steam to high purity hydrogen, which is then used in the hydrodesulfurization, hydrocracking and isomerization processes.

**HF alkylation**, or hydrofluoric alkylation, means a refinery process which combines isobutane and C3/C4 olefins using HF acid as a catalyst to make high octane gasoline blend stock.

**Isomerization** means a refinery process for rearranging the structure of C5/C6 molecules without changing their size or chemical composition and is used to improve the octane of C5/C6 gasoline blendstocks.

**LPG** means liquid petroleum gases.

**LSG,** or low sulfur gasoline, means gasoline that contains less than 30 PPM of total sulfur.

**Lubricant** means a solvent neutral paraffinic product used in passenger and commercial vehicle engine oils, specialty products for metalworking or heat transfer applications and other industrial applications.

**MMSCFD** means one million standard cubic feet per day.

**MTBE** means methyl tertiary butyl ether, a high octane gasoline blend stock that is used to make various grades of gasoline.

**Natural gasoline** means a low octane gasoline blend stock that is purchased and used to blend with other high octane stocks produced to make various grades of gasoline.

**PPM** means parts-per-million.

**Refinery gross margin** means the difference between average net sales price and average costs of products per barrel of produced refined products. This does not include the associated depreciation and amortization costs.

**Reforming** means the process of converting gasoline type molecules into aromatic, higher octane gasoline blend stocks while producing hydrogen in the process.

**ROSE,** or **Solvent deasphalter / residuum oil supercritical extraction,** means a refinery unit that uses a light hydrocarbon like propane or butane to extract non-asphaltene heavy oils from asphalt or atmospheric reduced crude. These deasphalted oils are then further converted to gasoline and diesel in the FCC process. The remaining asphaltenes are either sold, blended to fuel oil or blended with other asphalt as a hardener.

**Sour crude oil** means crude oil containing quantities of sulfur greater than 0.4 percent by weight, while **Sweet crude oil** means crude oil containing quantities of sulfur equal to or less than 0.4 percent by weight.

**ULSD,** or ultra low sulfur diesel, means diesel fuel that contains less than 15 PPM of total sulfur.

**Vacuum distillation** means the process of distilling vapor from liquid crudes, usually by heating, and condensing below atmospheric pressure the vapor back to liquid in order to purify, fractionate or form the desired products.

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**Item 1. Financial Statements**

**HOLLY CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
(In thousands, except share data)

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 98,527 | $ 40,805 |
| Marketable securities | 1,026 | 49,194 |
| Accounts receivable: Product and transportation | 263,287 | 128,337 |
| Crude oil resales | 352,545 | 161,427 |
| | 615,832 | 289,764 |
| Inventories: Crude oil and refined products | 271,405 | 107,811 |
| Materials and supplies | 26,877 | 17,924 |
| | 298,282 | 125,735 |
| Income taxes receivable | 5,384 | 6,350 |
| Prepayments and other | 26,762 | 18,775 |
| **Total current assets** | 1,045,813 | 530,623 |
| Properties, plants and equipment, at cost | 1,826,584 | 1,509,701 |
| Less accumulated depreciation | (357,560) | (304,379) |
| | 1,469,024 | 1,205,322 |
| Marketable securities (long-term) | | 6,009 |
| Other assets: Turnaround costs | 57,526 | 34,309 |
| Goodwill | 27,542 | 27,542 |
| Intangibles and other | 98,193 | 70,420 |
| | 183,261 | 132,271 |
| **Total assets** | $ 2,698,098 | $ 1,874,225 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 820,635 | $ 391,142 |

| | | |
|---|---|---|
| Accrued liabilities | 47,331 | 42,016 |
| Short-term debt Holly Energy Partners | | 29,000 |
| **Total current liabilities** | 867,966 | 462,158 |
| Long-term debt Holly Corporation | 188,204 | |
| Long-term debt Holly Energy Partners | 417,628 | 341,914 |
| Deferred income taxes | 95,644 | 69,491 |
| Other long-term liabilities | 81,300 | 64,330 |
| **Equity:** | | |
| **Holly Corporation stockholders equity:** | | |
| Preferred stock, $1.00 par value 1,000,000 shares authorized; none issued | | |
| Common stock $.01 par value 160,000,000 shares authorized; 73,569,851 and 73,543,873 shares issued as of September 30, 2009 and December 31, 2008, respectively | 737 | 735 |
| Additional capital | 123,891 | 121,298 |
| Retained earnings | 1,182,831 | 1,145,388 |
| Accumulated other comprehensive loss | (34,200) | (35,081) |
| Common stock held in treasury, at cost 23,325,356 and 23,600,653 shares as of September 30, 2009 and December 31, 2008, respectively | (685,931) | (690,800) |
| **Total Holly Corporation stockholders equity** | 587,328 | 541,540 |
| Noncontrolling interest | 460,028 | 394,792 |
| **Total equity** | 1,047,356 | 936,332 |
| **Total liabilities and equity** | $ 2,698,098 | $ 1,874,225 |

See accompanying notes.

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**HOLLY CORPORATION**
**CONSOLIDATED STATEMENTS OF INCOME**
(Unaudited)
(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| **Sales and other revenues** | $ 1,490,429 | $ 1,719,920 | $ 3,179,633 | $ 4,943,726 |
| **Operating costs and expenses:** | | | | |
| Cost of products sold (exclusive of depreciation and amortization) | 1,295,438 | 1,534,776 | 2,687,018 | 4,538,763 |
| Operating expenses (exclusive of depreciation and amortization) | 97,063 | 71,130 | 242,773 | 206,013 |
| General and administrative expenses (exclusive of depreciation and amortization) | 16,728 | 14,298 | 43,583 | 40,177 |
| Depreciation and amortization | 24,267 | 16,740 | 70,088 | 45,978 |
| **Total operating costs and expenses** | 1,433,496 | 1,636,944 | 3,043,462 | 4,830,931 |
| **Income from operations** | 56,933 | 82,976 | 136,171 | 112,795 |
| **Other income (expense):** | | | | |
| Equity in earnings of SLC Pipeline | 646 | | 1,309 | |
| Interest income | 231 | 1,896 | 2,561 | 9,277 |
| Interest expense | (12,405) | (7,376) | (25,849) | (15,619) |
| Acquisition costs Tulsa refineries | (378) | | (1,988) | |
| Equity in earnings of Holly Energy Partners | | | | 2,990 |
| | (11,906) | (5,480) | (23,967) | (3,352) |
| **Income before income taxes** | 45,027 | 77,496 | 112,204 | 109,443 |
| Income tax provision: | | | | |
| Current | 6,268 | 29,081 | 9,793 | 34,522 |
| Deferred | 7,412 | (3,331) | 25,593 | 1,779 |
| | 13,680 | 25,750 | 35,386 | 36,301 |
| **Net income** | 31,347 | 51,746 | 76,818 | 73,142 |
| Less net income attributable to noncontrolling interest | 7,863 | 1,847 | 16,784 | 3,142 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Net income attributable to Holly Corporation stockholders** | $ | 23,484 | $ | 49,899 | $ | 60,034 | $ | 70,000 |
| **Net income per share attributable to Holly Corporation stockholders basic** | $ | 0.47 | $ | 1.00 | $ | 1.20 | $ | 1.39 |
| **Net income per share attributable to Holly Corporation stockholders diluted** | $ | 0.47 | $ | 1.00 | $ | 1.19 | $ | 1.38 |
| **Cash dividends declared per common share** | $ | 0.15 | $ | 0.15 | $ | 0.45 | $ | 0.45 |
| **Average number of common shares outstanding:** | | | | | | | | |
| Basic | | 50,244 | | 49,717 | | 50,153 | | 50,339 |
| Diluted | | 50,327 | | 50,032 | | 50,272 | | 50,717 |

See accompanying notes.

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**HOLLY CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
(In thousands)

| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 76,818 | $ 73,142 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 70,088 | 45,978 |
| Equity in earnings of SLC Pipeline | (1,309) | |
| Change in fair value interest rate swaps | 300 | |
| Deferred income taxes | 25,593 | 1,779 |
| Equity based compensation expense | 6,579 | 5,300 |
| Distributions in excess of equity in earnings of Holly Energy Partners | | 3,067 |
| (Increase) decrease in current assets: | | |
| Accounts receivable | (327,568) | (8,954) |
| Inventories | (73,813) | (91) |
| Income taxes receivable | 966 | 14,547 |
| Prepayments and other | (7,987) | (3,194) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | 429,465 | 65,697 |
| Accrued liabilities | 1,225 | (2,327) |
| Turnaround expenditures | (33,112) | (29,355) |
| Other, net | 12,407 | (4,895) |
| **Net cash provided by operating activities** | 179,652 | 160,694 |
| **Cash flows from investing activities:** | | |
| Additions to properties, plants and equipment Holly Corporation | (218,543) | (270,396) |
| Additions to properties, plants and equipment Holly Energy Partners | (27,478) | (21,037) |
| Acquisition of Tulsa Refinery Holly Corporation | (157,814) | |
| Investment in SLC Pipeline Holly Energy Partners | (25,500) | |
| Purchases of marketable securities | (165,892) | (377,226) |
| Sales and maturities of marketable securities | 220,281 | 516,062 |
| Proceeds from sale of crude pipeline and tankage assets | | 171,000 |
| Increase in cash due to consolidation of Holly Energy Partners | | 7,295 |
| Investment in Holly Energy Partners | | (290) |
| **Net cash provided by (used for) investing activities** | (374,946) | 25,408 |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of senior notes Holly Corporation | 187,925 | |
| Proceeds from issuance of common units Holly Energy Partners | 58,355 | |
| Borrowings under credit agreement Holly Corporation | 94,000 | |
| Repayments under credit agreement Holly Corporation | (94,000) | |
| Borrowings under credit agreement Holly Energy Partners | 197,000 | 50,000 |

| | | |
|---|---|---|
| Repayments under credit agreement Holly Energy Partners | (152,000) | (26,000) |
| Dividends | (22,569) | (21,585) |
| Distributions to noncontrolling interest | (23,359) | (14,645) |
| Purchase of treasury stock | (1,214) | (151,106) |
| Contribution from joint venture partner | 13,650 | 15,000 |
| Excess tax benefit from equity based compensation | 2,140 | 4,275 |
| Deferred financing costs | (6,356) | (101) |
| Other | (556) | (301) |
| **Net cash provided by (used for) financing activities** | 253,016 | (144,463) |
| **Cash and cash equivalents:** | | |
| **Increase for the period** | 57,722 | 41,639 |
| Beginning of period | 40,805 | 94,369 |
| **End of period** | $ 98,527 | $ 136,008 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the period for | | |
| Interest | $ 20,555 | $ 13,201 |
| Income taxes | $ 18,219 | $ 21,018 |

See accompanying notes.

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**HOLLY CORPORATION**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Unaudited)
(In thousands)

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| **Net income** | $ 31,347 | $ 51,746 | $ 76,818 | $ 73,142 |
| Other comprehensive income (loss): | | | | |
| Securities available for sale: | | | | |
| Unrealized gain (loss) on available-for-sale securities | 234 | (1,972) | (24) | (645) |
| Reclassification adjustment to net income on sale of marketable securities | | (12) | 236 | (1,351) |
| Total unrealized gain (loss) on available-for-sale securities | 234 | (1,984) | 212 | (1,996) |
| Other comprehensive income of Holly Energy Partners: | | | | |
| Change in fair value of cash flow hedge | (1,482) | (1,622) | 2,685 | 826 |
| Other comprehensive income (loss) before income taxes | (1,248) | (3,606) | 2,897 | (1,170) |
| Income tax expense (benefit) | (173) | (1,031) | 560 | (643) |
| Other comprehensive income (loss) | (1,075) | (2,575) | 2,337 | (527) |
| Total comprehensive income | 30,272 | 49,171 | 79,155 | 72,615 |
| Less comprehensive income attributable to noncontrolling interest | 7,059 | 967 | 18,240 | 3,590 |
| **Comprehensive income attributable to Holly Corporation stockholders** | $ 23,213 | $ 48,204 | $ 60,915 | $ 69,025 |

See accompanying notes.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## (Unaudited)

**NOTE 1: Description of Business and Presentation of Financial Statements**

References herein to Holly Corporation include Holly Corporation and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission s ( SEC ) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we, our, ours and us refer only to Holly Corporatio and its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person with certain exceptions. For periods prior to our reconsolidation of Holly Energy Partners, L.P. ( HEP ) effective March 1, 2008, the words we, our, ours and us exclude HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation. Our consolidated financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of Holly Corporation. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

As of the close of business on September 30, 2009, we:

- owned and operated three refineries consisting of our petroleum refinery in Artesia, New Mexico that is operated in conjunction with crude oil distillation and vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively known as the Navajo Refinery ), our refinery in Woods Cross, Utah ( Woods Cross Refinery ) and our refinery located in Tulsa, Oklahoma ( Tulsa Refinery ). See Note 2 for information on our Tulsa Refinery acquired on June 1, 2009;

- owned and operated Holly Asphalt Company which manufactures and markets asphalt products from various terminals in Arizona and New Mexico; and

- owned a 41% interest in HEP which includes our 2% general partner interest, which has logistic assets including approximately 2,700 miles of petroleum product and crude oil pipelines located principally in west Texas and New Mexico; ten refined product terminals; a jet fuel terminal; loading rack facilities at each of our three refineries; a refined products tank farm facility; on-site crude oil tankage at both our Navajo and Woods Cross Refineries and a 70% interest in Rio Grande Pipeline Company ( Rio Grande ). Additionally, HEP owns a 25% interest in SLC Pipeline LLC ( SLC Pipeline ).

We have prepared these consolidated financial statements without audit. In management s opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of September 30, 2009, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2009 and 2008 and consolidated cash flows for the nine months ended September 30, 2009 and 2008 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States ( GAAP ) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our consolidated financial statements under Exhibit 99.6 of our Form 8-K dated June 2, 2009 and our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

These consolidated financial statements reflect management s evaluation of subsequent events through the time of our filing of this Quarterly Report on Form 10-Q with the SEC on November 6, 2009.

Our results of operations for the first nine months of 2009 are not necessarily indicative of the results to be expected for the full year.

Our accounts receivable consist of amounts due from customers which are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer s financial condition and in certain circumstances, collateral, such as letters of credit or guarantees, is required. Credit losses are charged to income when accounts are deemed uncollectible and historically have been minimal. At September 30, 2009 our allowance for doubtful accounts reserve was $2.5 million.

We use the last-in, first-out ( LIFO ) method of valuing inventory. Under the LIFO method, an actual valuation of inventory can only be made at the end of each year based on the inventory levels at that time. Accordingly, interim LIFO calculations are based on management s estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation.

Our financial instruments consist of cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable, interest rate swaps and debt. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Debt consists of outstanding principle under the credit agreements and long-term senior notes. The carrying amounts of outstanding debt under the credit agreements approximate fair value as interest rates are reset frequently using current interest rates. The estimated fair values of the senior notes are based on market quotes provided from a third-party bank. See Note 9 for additional information on the senior notes, including fair value estimates.

Fair value measurements are derived using inputs, assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. GAAP categorizes inputs used in fair value measurements into three broad levels as follows:

(Level 1) Quoted prices in active markets for identical assets or liabilities.

(Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for similar assets and liabilities in markets that are not active or inputs that can be corroborated by observable market data.

(Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

Our investments in marketable securities are measured at fair value using quoted market prices, a Level 1 input. See Note 6 for additional information on our investments in marketable securities, including fair value measurements.

HEP has interest rate swaps that are measured at fair value on a recurring basis using Level 2 inputs. With respect to these instruments, fair value is based on the net present value of expected future cash flows related to both variable and fixed rate legs of our interest rate swap agreements. The measurements are computed using the forward London Interbank Offered Rate ( LIBOR ) yield curve, a market-based observable input. See Note 9 for additional information on the interest rate swaps, including fair value measurements.

***New Accounting Pronouncements***

*Accounting Standards Codification*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued its Accounting Standards Codification ( ASC ), codifying all previous sources of accounting principles into a single source of authoritative nongovernmental GAAP. Although the ASC supersedes all previous levels of authoritative accounting standards, it did not affect accounting principles under GAAP. We adopted the codification effective September 30, 2009.

*Subsequent Events*

In May 2009, the FASB issued accounting standards under ASC Topic Subsequent Events (previously Statement of Financial Accounting Standard ( SFAS ) No. 165) which establish general standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted these standards effective June 30, 2009. Although these standards require disclosure of the date through which we have evaluated subsequent events, it did not affect our accounting and disclosure policies with respect to subsequent events.

*Interim Disclosures about Fair Value of Financial Instruments*

In April 2009, the FASB issued accounting standards under ASC Topic Financial Instruments (previously FASB Staff Position ( FSP ) SFAS No. 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1) which extend the annual financial statement disclosure requirements for financial instruments to interim reporting periods of publicly traded companies. We adopted these standards effective June 30, 2009.

*Noncontrolling Interests in Consolidated Financial Statements*

Accounting standards under ASC Topic Noncontrolling Interest in a Subsidiary (previously SFAS No. 160) became effective January 1, 2009, which change the classification of noncontrolling interests, also referred to as minority interests, in the consolidated financial statements. As a result, all previous references to minority interest within this document have been replaced with noncontrolling interest. Additionally, net income attributable to the noncontrolling interest in our HEP subsidiary is now presented as an adjustment to net income to arrive at Net income attributable to Holly Corporation stockholders in our Consolidated Statements of Income. Prior to our adoption of these standards, this amount was presented as Minority interests in earnings of Holly Energy Partners, a non-operating expense item before Income before income taxes. Additionally, equity attributable to noncontrolling interests is now presented as a separate component of total equity in our consolidated financial statements. We have applied these standards on a retrospective basis. While this presentation differs from previous GAAP requirements, it did not affect our net income and equity attributable to Holly Corporation stockholders.

*Disclosures about Derivative Instruments and Hedging Activities*

Standards under ASC Topic Derivatives and Hedging (previously SFAS No. 161) became effective January 1, 2009, which amend and expand disclosure requirements to include disclosure of the objectives and strategies related to an entity s use of derivative instruments, disclosure of how an entity accounts for its derivative instruments and disclosure of the financial impact, including the effect on cash flows associated with derivative activity. See Note 9 for disclosure of HEP s derivative instruments and hedging activity.

*Variable Interest Entities*

In June 2009, the FASB issued standards under ASC Topic Variable Interest Entities (previously SFAS No. 167) which replace the previous quantitative-based risk and rewards calculation provided under GAAP with a qualitative approach in determining whether an entity is the primary beneficiary of a variable interest entity ( VIE ). Additionally, these standards require an entity to assess on an ongoing basis whether it is the primary beneficiary of a VIE and enhances disclosure requirements with respect to an entity s involvement in a VIE. These standards are effective as of the beginning of an entity s fiscal year beginning after November 15, 2009 including interim periods within that year. While we are currently evaluating the impact of these standards, we do not believe that it will have a material impact on our financial condition, results of operations and cash flows.

**NOTE 2: Tulsa Refinery Acquisition**

On June 1, 2009 we acquired the Tulsa Refinery, an 85,000 BPSD petroleum refinery located in Tulsa, Oklahoma, from Sunoco Inc. ( Sunoco ) for $157.8 million, including crude oil, refined product and other inventories totaling $92.8 million. The Tulsa Refinery is located on an approximate 750-acre site and has supporting infrastructure including approximately 3.2 million barrels of feedstock and product tankage and an additional 1.2 million barrels of tank capacity that is currently out of service. Additionally, supporting infrastructure includes nine truck racks and six rail racks that support product distribution at the refinery.

Distillates and gasolines are primarily delivered from the Tulsa Refinery to market via two pipelines owned and operated by Magellan Midstream Partners, L.P. These pipelines connect the refinery to distribution channels throughout the mid-continent region of the United States. Additionally, the Tulsa Refinery has a proprietary diesel transfer line to the local Burlington Northern Santa Fe Railroad depot, and the refinery s truck and rail rack capability facilitates access to local refined product markets. The refinery also produces specialty lubricant products including agricultural oils, base oils, process oils and waxes that are marketed throughout North America and are distributed in Central and South America.

In accounting for this purchase, we recorded $5.9 million in materials and supplies, $92.8 million in crude oil and refined products inventory, $75.9 million in property, plants and equipment, $4.1 million in accrued liabilities and $12.7 million in other long-term liabilities. The acquired liabilities primarily relate to environmental and asset retirement obligations. These amounts are based on management s preliminary fair value estimates and are subject to change. Additionally, we have incurred $2 million in costs related to the Tulsa refineries that were expensed as acquisition costs.

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For the period from June 1, 2009 (date of acquisition) through September 30, 2009, our Tulsa Refinery generated revenues of $545.7 million and net income of $5.2 million. We have not provided disclosure of pro forma revenues and earnings as if the Tulsa Refinery had been operating as a part of our refining business during all periods presented in these financial statements. Pro forma financial information specific to the Tulsa Refinery operations for periods prior to our acquisition is not available in GAAP form. The compilation of such financial information would entail an extremely manual process of unwinding significant volumes of intra-company transactions and obtaining a comprehensive understanding of accounting policies as well as estimates employed by Sunoco with respect to items including, but not limited to, inventory and depreciation. We would then need to recast historical financial information to reflect our own estimates and accounting policies. Therefore, we do not believe that it would be practical to produce this information, nor do we believe it would be representative or comparable with respect to our future operating results.

**NOTE 3: Holly Energy Partners**

HEP is a publicly held master limited partnership that commenced operations July 13, 2004 upon the completion of its initial public offering. At September 30, 2009, we held 7,290,000 common units of HEP, representing a 41% ownership interest in HEP, including our 2% general partner interest. In August 2009, all of the conditions necessary to end the subordination period of our HEP subordinated units were met and the units were converted into 7,000,000 HEP common units.

HEP is a variable interest entity as defined under ASC Topic Variable Interest Entities (previously FASB Interpretation 46(R)). Under the provisions of this topic, HEP s acquisition of the Crude Pipelines and Tankage Assets (discussed below) qualified as a reconsideration event whereby we reassessed whether HEP continued to qualify as a VIE. Following this transfer, we determined that HEP continued to qualify as a VIE, and furthermore, we determined that our beneficial interest in HEP exceeded 50%. Accordingly, we reconsolidated HEP effective March 1, 2008 and no longer account for our investment in HEP under the equity method of accounting. As a result, our consolidated financial statements include the results of HEP. Additionally, HEP s 2009 asset acquisitions and its May 2009 equity offering (discussed below) qualified as reconsideration events whereby we determined that HEP continues to qualify as a VIE and we remain HEP s primary beneficiary.

On August 1, 2009, HEP acquired certain of our truck and rail loading facilities located at our Tulsa Refinery for $17.5 million. In connection with this transaction, we entered into a 15-year equipment and throughput agreement with HEP for usage of the facilities to load or unload products via tanker truck and / or rail car that expires in 2024 (the HEP ETA ).

On June 1, 2009, HEP acquired our newly constructed 16-inch feedstock pipeline at our cost of $34.2 million. The pipeline runs 65 miles from our Navajo Refinery s crude oil distillation and vacuum facilities in Lovington, New Mexico to the Navajo petroleum refinery located in Artesia, New Mexico. HEP operates this pipeline as a component of its intermediate pipeline system that services the Navajo Refinery.

Since HEP is a consolidated subsidiary, these transactions including fees paid under our transportation agreements with HEP are eliminated and have no impact on our consolidated financial statements.

In May 2009, HEP closed a public offering of 2,192,400 of its common units priced at $27.80 per unit including 192,400 common units issued pursuant to the underwriters exercise of their over-allotment option. Net proceeds of $58.4 million were used to repay bank debt and for general partnership purposes. In addition, we made a capital contribution to HEP of $1.2 million to maintain our 2% general partner interest. As a result of the issuance of additional HEP common units, our ownership interest in HEP was decreased from 46% to 41%.

On February 29, 2008, we closed on the sale of certain crude pipelines and tankage assets (the Crude Pipelines and Tankage Assets ) to HEP for $180 million. The assets consisted of crude oil trunk lines that deliver crude oil to our Navajo Refinery in southeast New Mexico, gathering and connection pipelines located in west Texas and New Mexico, on-site crude tankage located within the Navajo and Woods Cross Refinery complexes, a jet fuel products pipeline between Artesia and Roswell, New Mexico, a leased jet fuel terminal in Roswell, New Mexico and crude oil and product pipelines that support our Woods Cross Refinery. Consideration received consisted of $171 million in cash and 217,497 HEP common units having a value of $9 million.

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HEP currently serves our refineries in New Mexico, Utah and Oklahoma under multiple long-term pipeline and terminal, tankage and throughput agreements. The majority of HEP s business is devoted to providing transportation, storage and terminalling services to us. In addition to the HEP ETA as discussed above, we have an agreement that relates to the pipelines and terminals contributed to HEP by us at the time of their initial public offering in 2004 and expires in 2019 (the HEP PTA ). We also have an agreement that relates to the intermediate pipelines sold to HEP in 2005 and in June 2009 and expires in 2024 (the HEP IPA ) and an agreement that relates to the Crude Pipelines and Tankage Assets sold to HEP also discussed above that expires in February 2023 (the HEP CPTA ).

Under these agreements, we agreed to transport and store volumes of refined product and crude oil on HEP s pipelines and terminal and tankage facilities that result in minimum annual payments to HEP. These minimum annual payments are adjusted each year at a percentage change based upon the change in the producer price index ( PPI ) but will not decrease as a result of a decrease in the PPI. Under these agreements, the agreed upon tariff rates are adjusted each year on July 1 at a rate based upon the percentage change in the PPI or the Federal Energy Regulatory Commission ( FERC ) index, but with the exception of the Holly IPA, generally will not decrease as a result of a decrease in the PPI or FERC index. The FERC index is the change in the PPI plus a FERC adjustment factor that is reviewed periodically.

The balance sheet impact of our reconsolidation of HEP on March 1, 2008 was an increase in cash of $7.3 million, an increase in other current assets of $5.9 million, an increase in properties, plants and equipment of $336.9 million, an increase in goodwill, intangibles and other assets of $81.5 million, an increase in current liabilities of $19.6 million, an increase in long-term debt of $338.5 million, a decrease in other long-term liabilities of $0.5 million, an increase in noncontrolling interest of $389.1 million and a decrease in distributions in excess of investment in HEP of $315.1 million.

**NOTE 4: Earnings Per Share**

Basic earnings per share attributable to Holly Corporation stockholders is calculated as net income attributable to Holly Corporation stockholders divided by the average number of shares of common stock outstanding. Diluted earnings per share assumes, when dilutive, the issuance of the net incremental shares from stock options, variable restricted shares and performance share units. The following is a reconciliation of the denominators of the basic and diluted per share computations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | (In thousands, except per share data) | | | |
| Net Income attributable to Holly Corporation stockholders | $ 23,484 | $ 49,899 | $ 60,034 | $ 70,000 |
| Average number of shares of common stock outstanding | 50,244 | 49,717 | 50,153 | 50,339 |
| Effect of dilutive stock options, variable restricted shares and performance share units | 83 | 315 | 119 | 378 |
| Average number of shares of common stock outstanding assuming dilution | 50,327 | 50,032 | 50,272 | 50,717 |
| Net income per share attributable to Holly Corporation stockholders basic | $ 0.47 | $ 1.00 | $ 1.20 | $ 1.39 |
| Net income per share attributable to Holly Corporation stockholders diluted | $ 0.47 | $ 1.00 | $ 1.19 | $ 1.38 |

**NOTE 5: Stock-Based Compensation**

***Holly Corporation***

On September 30, 2009, we had three principal share-based compensation plans which are described below (collectively, the Long-Term Incentive Compensation Plan ). The compensation cost that has been charged against income for these plans was $2 million for each of the three months ended September 30, 2009 and 2008, and $5.5

million and $5.8 million of the nine months ended September 30, 2009 and 2008, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $0.8 million for each of the three months ended September 30, 2009 and 2008, and $2.1 million and $2.2 million for the nine months ended September 30, 2009 and 2008, respectively. Our current accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs pro-rata over the vesting periods. At September 30, 2009, 1,934,897 shares of common stock were reserved for future grants under the current Long-Term Incentive Compensation Plan, which reservation allows for awards of options, restricted stock, or other performance awards.

Additionally, HEP maintains share-based compensation plans for HEP directors and select Holly Logistic Services, L.L.C. executives and employees. Compensation cost attributable to HEP s share-based compensation plans for the three months ended September 30, 2009 and 2008 was $0.2 million and $0.6 million, respectively, and for the nine months ended September 30, 2009 and 2008 was $1.1 million and $1.4 million, respectively.

***Stock Options***

Under our Long-Term Incentive Compensation Plan and a previous stock option plan, we have granted stock options to certain officers and other key employees. All the options have been granted at prices equal to the market value of the shares at the time of the grant and normally expire on the tenth anniversary of the grant date. These awards generally vest 20% at the end of each of the five years following the grant date. There have been no options granted since December 2001. The fair value on the date of grant of each option awarded was estimated using the Black-Scholes option pricing model.

A summary of option activity and changes during the nine months ended September 30, 2009 is presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding at January 1, 2009 | 85,200 | $ 2.98 | | |
| Exercised | (20,000) | 2.98 | | |
| Outstanding and exercisable at September 30, 2009 | 65,200 | $ 2.98 | 1.4 | $ 1,476 |

The total intrinsic value of options exercised during the nine months ended September 30, 2009 and 2008, was $0.4 million and $5.2 million, respectively.

Cash received from option exercises under the stock option plans was $0.1 million and $0.5 million for the nine months ended September 30, 2009 and 2008, respectively. The actual tax benefit realized for the tax deductions from option exercises under the stock option plans totaled $0.2 million and $2 million for the nine months ended September 30, 2009 and 2008, respectively.

***Restricted Stock***

Under our Long-Term Incentive Compensation Plan, we grant certain officers, other key employees and outside directors restricted stock awards with substantially all awards vesting generally over a period of one to five years. Although ownership of the shares does not transfer to the recipients until after the shares vest, recipients generally have dividend rights on these shares from the date of grant. The vesting for certain key executives is contingent upon certain earnings per share targets being realized. The fair value of each share of restricted stock awarded, including the shares issued to the key executives, was measured based on the market price as of the date of grant and is being amortized over the respective vesting period.

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A summary of restricted stock grant activity and changes during the nine months ended September 30, 2009 is presented below:

| Restricted Stock | Grants | Weighted-Average Grant-Date Fair Value | Aggregate Intrinsic Value ($000) |
|---|---|---|---|
| Outstanding at January 1, 2009 (nonvested) | 235,310 | $ 35.86 | |
| Vesting and transfer of ownership to recipients | (139,312) | 27.77 | |
| Granted | 184,182 | 23.08 | |
| Forfeited | (4,045) | 40.06 | |
| Outstanding at September 30, 2009 (nonvested) | 276,135 | $ 31.36 | $ 7,075 |

The total fair value of restricted stock vested and transferred to recipients during the nine months ended September 30, 2009 and 2008 was $3.9 million and $3.1 million, respectively. As of September 30, 2009, there was $3.2 million of total unrecognized compensation cost related to nonvested restricted stock grants. That cost is expected to be recognized over a weighted-average period of 0.8 years.

***Performance Share Units***

Under our Long-Term Incentive Compensation Plan, we grant certain officers and other key employees performance share units, which are payable in stock upon meeting certain criteria over the service period, and generally vest over a period of one to three years. Under the terms of our performance share unit grants, the awards are subject to financial performance criteria.

During the nine months ended September 30, 2009, we granted 122,555 performance share units with a fair value based on our grant date closing stock price of $22.94. These units are payable in stock and are subject to certain financial performance criteria.

The fair value of each performance share unit award is computed using the grant date closing stock price of each respective award grant and will apply to the number of units ultimately awarded. The number of shares ultimately issued for each award will be based on our financial performance as compared to peer group companies over the performance period and can range from zero to 200%. As of September 30, 2009, estimated share payouts for outstanding nonvested performance share unit awards ranged from 125% to 175%.

A summary of performance share unit activity and changes during the nine months ended September 30, 2009 is presented below:

| Performance Share Units | Grants |
|---|---|
| Outstanding at January 1, 2009 (non-vested) | 169,669 |
| Vesting and transfer of ownership to recipients | (72,059) |
| Granted | 122,555 |
| Forfeited | (4,995) |
| Outstanding at September 30, 2009 (non-vested) | 215,170 |

For the nine months ended September 30, 2009, we issued 110,971 shares of our common stock having a fair value of $2.2 million related to vested performance share units, representing a 154% payout. Based on the weighted average grant date fair value of $35.07, there was $4.6 million of total unrecognized compensation cost related to non-vested performance share units. That cost is expected to be recognized over a weighted-average period of 1.1 years.

**NOTE 6: Cash and Cash Equivalents and Investments in Marketable Securities**

Our investment portfolio consists of cash and cash equivalents at September 30, 2009. In addition, we own 1,000,000 shares of Connacher Oil and Gas Limited common stock that was received as partial consideration upon the sale of our Montana Refinery in 2006.

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We also at times invest available cash in highly-rated marketable debt securities, primarily issued by government entities that have maturities at the date of purchase of greater than three months. These securities may include investments in variable rate demand notes ( VRDN ).

Our investments in marketable securities are classified as available-for-sale, and as a result, are reported at fair value using quoted market prices. Interest income is recorded as earned. Unrealized gains and losses, net of related income taxes, are considered temporary and are reported as a component of accumulated other comprehensive income. For investments in an unrealized loss position that are determined to be other than temporary, unrealized losses are reclassified out of accumulated other comprehensive income and into earnings as an impairment loss. Upon sale, realized gains and losses on the sale of marketable securities are computed based on the specific identification of the underlying cost of the securities sold and the unrealized gains and losses previously reported in other comprehensive income are reclassified to current earnings.

The following is a summary of our available-for-sale securities at September 30, 2009:

| | Available-for-Sale Securities | | |
|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gain | Estimated Fair Value (Net Carrying Amount) |
| | (In thousands) | | |
| Equity securities | $ 604 | $ 422 | $ 1,026 |

The following is a summary of our available-for-sale securities at December 31, 2008:

| | Available-for-Sale Securities | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gain | Recognized Impairment Loss | Estimated Fair Value (Net Carrying Amount) |
| | (In thousands) | | | |
| States and political subdivisions | $ 54,389 | $ 210 | $ | $ 54,599 |
| Equity securities | 4,328 | | (3,724) | 604 |
| Total marketable securities | $ 58,717 | $ 210 | $ (3,724) | $ 55,203 |

For the nine months ended September 30, 2009 and 2008 we received a total of $220.3 million and $516.1 million, respectively, related to sales and maturities of our investments in marketable debt securities.

**NOTE 7: Inventories**

Inventory consists of the following components:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Crude oil | $ 52,730 | $ 22,897 |

| | | |
|---|---|---|
| Other raw materials and unfinished products [1] | 35,135 | 12,286 |
| Finished products [2] | 183,540 | 72,628 |
| Process chemicals [3] | 8,778 | 3,800 |
| Repairs and maintenance supplies and other | 18,099 | 14,124 |
| | $ 298,282 | $ 125,735 |

(1) Other raw materials and unfinished products include feedstocks and blendstocks, other than crude.

(2) Finished products include gasolines, jet fuels, diesels, lubricants, asphalts, LPG s and residual fuels.

(3) Process chemicals include catalysts, additives and other chemicals.

During the second quarter of 2009, we recognized a $1 million charge to cost of products sold resulting from the liquidation of certain LIFO quantities of inventory that were carried at higher costs as compared to current costs.

**NOTE 8: Environmental**

Consistent with our accounting policy for environmental remediation costs, we expensed $4.2 million and $0.3 million for the nine months ended September 30, 2009 and 2008, respectively, for environmental remediation obligations. The accrued environmental liability reflected in the consolidated balance sheets was $18.9 million and $7.3 million at September 30, 2009 and December 31, 2008, respectively, of which $13.9 million and $4.2 million, respectively, were classified as other long-term liabilities. These liabilities include $10 million of environmental obligations that we assumed in connection with our Tulsa Refinery acquisition on June 1, 2009. Costs of future expenditures for environmental remediation are discounted to their present value.

**NOTE 9: Debt**

***Credit Facilities***

In April 2009, we entered into a second amended and restated $300 million senior secured revolving credit agreement (the Holly Credit Agreement ) that amends and restates our previous credit agreement in its entirety with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. The credit agreement expires in March 2013 and may be used to fund working capital requirements, capital expenditures, permitted acquisitions or other general corporate purposes. We were in compliance with all covenants at September 30, 2009. At September 30, 2009, we had no outstanding borrowings and letters of credit totaling $46.8 million under the Holly Credit Agreement. At that level of usage, the unused commitment under the Holly Credit Agreement was $253.2 million at September 30, 2009.

HEP has a $300 million senior secured revolving credit agreement expiring in August 2011 (the HEP Credit Agreement ). The HEP Credit Agreement is available to fund capital expenditures, acquisitions and working capital and for other general partnership purposes. At September 30, 2009, HEP had outstanding borrowings totaling $245 million under the HEP Credit Agreement, with unused borrowing capacity of $55 million. HEP s obligations under the HEP Credit Agreement are collateralized by substantially all of HEP s assets. HEP assets that are included in our Consolidated Balance Sheets at September 30, 2009 consist of $4.1 million in cash and cash equivalents, $6 million in trade accounts receivable and other current assets, $398.8 million in properties, plants and equipment, net and $106.9 million in intangible and other assets. Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP s wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P. s assets, which other than its investment in HEP, are not significant. Navajo Pipeline Co., L.P., Navajo Refining Company, L.L.C. and Woods Cross Refining Company, L.L.C., three of our subsidiaries, have agreed to indemnify HEP s controlling partner to the extent it makes any payment in satisfaction of debt service due on up to a $171 million aggregate principal amount of borrowings under the HEP Credit Agreement.

***Holly Senior Notes Due 2017***

On June 10, 2009, we issued $200 million in aggregate principal amount of 9.875% senior notes due 2017 (the Holly Senior Notes ). A portion of the $188 million in net proceeds received was used for post-closing payments for inventories of crude oil and refined products acquired from Sunoco following the closing of the Tulsa Refinery purchase on June 1, 2009. The remaining proceeds are available for general business purposes, including capital expenditures.

The Holly Senior Notes mature on June 15, 2017 and bear interest at 9.875%. The Holly Senior Notes are unsecured and impose certain restrictive covenants, including limitations on Holly s ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. At any time when the Holly Senior Notes are rated investment grade by both Moody s and Standard & Poor s and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the Holly Senior Notes.

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***HEP Senior Notes Due 2015***

The HEP senior notes maturing March 1, 2015 are registered with the SEC and bear interest at 6.25% (the HEP Senior Notes ). The HEP Senior Notes are unsecured and impose certain restrictive covenants, including limitations on HEP s ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody s and Standard & Poor s and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes. Indebtedness under the HEP Senior Notes is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP s wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P. s assets, which other than its investment in HEP, are not significant. Navajo Pipeline Co., L.P., one of our subsidiaries, has agreed to indemnify HEP s controlling partner to the extent it makes any payment in satisfaction of debt service on up to $35 million of the principal amount of the HEP Senior Notes.

The carrying amount of Holly s long-term debt is as follows:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Holly Senior Notes | | |
| Principal | $ 200,000 | $ |
| Unamortized discount | (11,796) | |
| Total long-term debt | $ 188,204 | $ |

The carrying amounts of HEP s long-term debt are as follows:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| HEP Credit Agreement | $ 245,000 | $ 200,000 |
| HEP Senior Notes | | |
| Principal | 185,000 | 185,000 |
| Unamortized discount | (14,249) | (16,223) |
| Unamortized premium dedesignated fair value hedge | 1,877 | 2,137 |
| | 172,628 | 170,914 |
| Total debt | 417,628 | 370,914 |
| Less short-term borrowings under HEP Credit Agreement[(1)] | | 29,000 |
| Total long-term debt[(1)] | $ 417,628 | $ 341,914 |

(1) HEP is currently classifying all borrowings under the HEP Credit Agreement as long-term debt. At December 31, 2008, certain borrowings under the HEP Credit Agreement were classified as short-term debt.

At September 30, 2009, the estimated fair values of the Holly Senior Notes and the HEP Senior Notes were $204 million and $169.3 million, respectively.

***Interest Rate Risk Management***

HEP uses interest rate derivatives to manage its exposure to interest rate risk. As of September 30, 2009, HEP had three interest rate swap contracts.

HEP has an interest rate swap that hedges its exposure to the cash flow risk caused by the effects of LIBOR changes on its $171 million credit agreement advance that was used to finance its purchase of the Crude Pipelines and Tankage Assets in February 2008. This interest rate swap effectively converts its $171 million LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 1.75%, which equaled an effective interest rate of 5.49% as of September 30, 2009. The maturity of this swap contract is February 28, 2013.

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HEP has designated this interest rate swap as a cash flow hedge. Based on its assessment of effectiveness using the change in variable cash flows method, HEP determined that the interest rate swap is effective in offsetting the variability in interest payments on the $171 million variable rate debt resulting from changes in LIBOR. Under hedge accounting, HEP adjusts the cash flow hedge on a quarterly basis to its fair value with the offsetting fair value adjustment to accumulated other comprehensive income. Also on a quarterly basis, HEP measures hedge effectiveness by comparing the present value of the cumulative change in the expected future interest to be paid or received on the variable leg of their swap against the expected future interest payments on the $171 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of September 30, 2009, HEP had no ineffectiveness on its cash flow hedge.

HEP also has an interest rate swap contract that effectively converts interest expense associated with $60 million of the 6.25% HEP Senior Notes from fixed to variable rate debt ( Variable Rate Swap ). Under this swap contract, interest on the $60 million notional amount is computed using the three-month LIBOR plus a spread of 1.1575%, which equaled an effective interest rate of 1.52% as of September 30, 2009. The maturity of the swap contract is March 1, 2015, matching the maturity of the HEP Senior Notes.

In October 2008, HEP entered into an additional interest rate swap contract, effective December 1, 2008, that effectively unwinds the effects of the Variable Rate Swap discussed above, converting $60 million of the hedged long-term debt back to fixed rate debt ( Fixed Rate Swap ). Under the Fixed Rate Swap, interest on a notional amount of $60 million is computed at a fixed rate of 3.59% versus three-month LIBOR which when added to the 1.1575% spread on the Variable Rate Swap results in an effective fixed interest rate of 4.75%. The maturity date of this swap contract is December 1, 2013.

Prior to the execution of HEP s Fixed Rate Swap, the Variable Rate Swap was designated as a fair value hedge of $60 million in outstanding principal under the HEP Senior Notes. HEP dedesignated this hedge in October 2008. At this time, the carrying balance of the HEP Senior Notes included a $2.2 million premium due to the application of hedge accounting until the dedesignation date. This premium is being amortized as a reduction to interest expense over the remaining term of the Variable Rate Swap.

HEP s interest rate swaps not having a hedge designation are measured quarterly at fair value either as an asset or a liability in the Consolidated Balance Sheets with the offsetting fair value adjustment to interest expense. For the three and nine months ended September 30, 2009, HEP recognized an increase of $0.9 million and $0.3 million, respectively, in interest expense as a result of fair value adjustments to its interest rate swaps.

HEP records interest expense equal to the variable rate payments under the swaps. Receipts under the swap agreements are recorded as a reduction to interest expense.

Additional information on HEP s interest rate swaps at September 30, 2009 is as follows:

| Interest Rate Swaps | Balance Sheet Location | Fair Value | Location of Offsetting Balance | Offsetting Amount |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Asset** | | | | |
| Fixed-to-variable interest rate swap $60 million of 6.25% HEP Senior Notes | Other assets | $ 2,658 | Long-term debt HEP | $ (1,877) |
| | | | Equity | (1,942)(1) |
| | | | Interest expense | 1,161(2) |
| | | $ 2,658 | | $ (2,658) |
| **Liability** | | | | |
| Cash flow hedge $171 million LIBOR based debt | Other long-term liabilities | $ (10,182) | Accumulated other comprehensive loss | $ 10,182 |

| | | | | |
|---|---|---|---|---|
| Variable-to-fixed interest rate swap $60 million | Other long-term liabilities | (3,044) | Equity<br>Interest expense | 4,166(1)<br>(1,122) |
| | | $ (13,226) | | $ 13,226 |

(1) Represents prior year charges to interest expense.

(2) Net of amortization of premium attributable to dedesignated hedge.

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**NOTE 10: Equity**

Changes to equity during the nine months ended September 30, 2009 are presented below:

| | Holly Corporation Stockholders Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|
| **Balance at December 31, 2008** | $ 541,540 | $ 394,792 | $ 936,332 |
| Net income | 60,034 | 16,784 | 76,818 |
| Other comprehensive income | 881 | 1,456 | 2,337 |
| Dividends | (22,591) | | (22,591) |
| Distributions to noncontrolling interest | | (23,359) | (23,359) |
| Issuance of common stock upon exercise of stock options | 60 | | 60 |
| Equity based compensation expense, net of forfeitures | 5,948 | 631 | 6,579 |
| Tax benefit from equity based compensation | 2,140 | | 2,140 |
| Issuance of HEP common units, net of issuing costs | | 58,355 | 58,355 |
| Contribution from joint venture partner | | 12,150 | 12,150 |
| Purchase of treasury stock | (1,214) | | (1,214) |
| Other | 530 | (781) | (251) |
| **Balance at September 30, 2009** | $ 587,328 | $ 460,028 | $ 1,047,356 |

During the nine months ended September 30, 2009, we repurchased at current market prices 59,934 shares of our common stock at a cost of approximately $1.2 million from certain officers and key employees. These purchases were made under the terms of restricted stock and performance share unit agreements to provide funds for the payment of payroll and income taxes due at the vesting of restricted shares in the case of officers and employees who did not elect to satisfy such taxes by other means.

**NOTE 11: Other Comprehensive Income**

The components and allocated tax effects of other comprehensive income are as follows:

| | Before-Tax | Tax Expense (Benefit) (In thousands) | After-Tax |
|---|---|---|---|
| **Three Months Ended September 30, 2009** | | | |
| Unrealized gain on available-for-sale securities | $ 234 | $ 91 | $ 143 |
| Unrealized loss on HEP cash flow hedge | (1,482) | (264) | (1,218) |
| Other comprehensive loss | (1,248) | (173) | (1,075) |
| Less other comprehensive loss attributable to noncontrolling interest | (804) | | (804) |
| Other comprehensive loss attributable to Holly Corporation stockholders | $ (444) | $ (173) | $ (271) |
| **Three Months Ended September 30, 2008** | | | |

| | | | |
|---|---|---|---|
| Unrealized loss on available-for-sale securities | $ (1,984) | $ (771) | $ (1,213) |
| Unrealized loss on HEP cash flow hedge | (1,622) | (260) | (1,362) |
| Other comprehensive loss | (3,606) | (1,031) | (2,575) |
| Less other comprehensive loss attributable to noncontrolling interest | (880) | | (880) |
| Other comprehensive loss attributable to Holly Corporation stockholders | $ (2,726) | $ (1,031) | $ (1,695) |
| **Nine Months Ended September 30, 2009** | | | |
| Unrealized gain on available-for-sale securities | $ 212 | $ 82 | $ 130 |
| Unrealized gain on HEP cash flow hedge | 2,685 | 478 | 2,207 |
| Other comprehensive income | 2,897 | 560 | 2,337 |
| Less other comprehensive income attributable to noncontrolling interest | 1,456 | | 1,456 |
| Other comprehensive income attributable to Holly Corporation stockholders | $ 1,441 | $ 560 | $ 881 |

| | Before-Tax | Tax Expense (Benefit) | After-Tax |
|---|---|---|---|
| | | (In thousands) | |
| **Nine Months Ended September 30, 2008** | | | |
| Unrealized loss on available-for-sale securities | $ (1,996) | $ (776) | $ (1,220) |
| Unrealized gain on HEP cash flow hedge | 826 | 133 | 693 |
| Other comprehensive loss | (1,170) | (643) | (527) |
| Less other comprehensive income attributable to noncontrolling interest | 448 | | 448 |
| Other comprehensive loss attributable to Holly Corporation stockholders | $ (1,618) | $ (643) | $ (975) |

The temporary unrealized gain (loss) on available-for-sale securities is due to changes in market prices of securities. Accumulated other comprehensive loss in the equity section of our Consolidated Balance Sheets includes:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Pension obligation adjustment | $ (29,409) | $ (29,409) |
| Retiree medical obligation adjustment | (2,202) | (2,202) |
| Unrealized gain on available-for-sale securities | 258 | 128 |
| Unrealized loss on HEP cash flow hedge | (2,847) | (3,598) |
| Accumulated other comprehensive loss | $ (34,200) | $ (35,081) |

**NOTE 12: Retirement Plan**

We have a non-contributory defined benefit retirement plan that covers most of our employees who were hired prior to January 1, 2007. Our policy is to make contributions annually of not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Benefits are based on the employee s years of service and compensation.

Effective January 1, 2007, the retirement plan was frozen to new employees not covered by collective bargaining agreements with labor unions. To the extent an employee was hired prior to January 1, 2007, and elected to participate in automatic contributions features under our defined contribution plan, their participation in future benefits of the retirement plan was frozen.

The net periodic pension expense consisted of the following components:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Service cost | $ 1,158 | $ 992 | $ 3,236 | $ 3,172 |
| Interest cost | 1,287 | 1,132 | 3,707 | 3,518 |

| | | | | |
|---|---|---|---|---|
| Expected return on assets | (959) | (1,307) | (2,883) | (3,595) |
| Amortization of prior service cost | 98 | 98 | 293 | 293 |
| Amortization of net loss | 1,024 | 212 | 2,861 | 914 |
| Net periodic benefit cost | $ 2,608 | $ 1,127 | $ 7,214 | $ 4,302 |

The expected long-term annual rate of return on plan assets is 8.5%. This rate was used in measuring 2009 and 2008 net periodic benefit cost. We contributed $1 million to the retirement plan during the nine months ended September 30, 2009.

**NOTE 13: Contingencies**

In May 2007, the United States Court of Appeals for the District of Columbia Circuit ( Court of Appeals ) issued its decision on petitions for review, brought by us and other parties, concerning rulings by the FERC in proceedings brought by us and other parties against SFPP, L.P. ( SFPP ). These proceedings relate to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. We are one of several refiners that regularly utilize the SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona on SFPP s East Line. The Court of Appeals in its May 2007 decision approved a FERC position, which is adverse to us, on the treatment of income taxes in the calculation of allowable rates for pipelines operated by partnerships and ruled in our favor on an issue relating to our rights to reparations when it is determined that certain tariffs we paid to SFPP in the past were too high. The income tax issue and the other remaining issues relating to SFPP s obligations to shippers are being handled by the FERC in a single compliance proceeding covering the period from 1992 through May 2006. We currently estimate that, as a result of the May 2007 Court of Appeals decision and prior rulings by the Court of Appeals and the FERC in these proceedings, a net amount will be due from SFPP to us for the period January 1992 through May 2006 in addition to the $15.3 million we received in 2003 from SFPP as reparations for the period from 1992 through July 2000. Because proceedings in the FERC following the Court of Appeals decision have not been completed and final action by the FERC could be subject to further court proceedings, it is not possible at this time to determine what will be the net amount payable to us at the conclusion of these proceedings.

We and other shippers have been engaged in settlement discussions with SFPP on remaining issues relating to East Line service in the FERC proceedings. A partial settlement covering the period June 2006 through November 2007, which became final in February 2008, resulted in a payment from SFPP to us of approximately $1.3 million in April 2008. On October 22, 2008, we and other shippers jointly filed at the FERC with SFPP a settlement covering the period from December 2008 through November 2010. The FERC approved the settlement on January 29, 2009. The settlement reduced SFPP s current rates and required SFPP to make additional payments to us of approximately $2.9 million, which was received on May 18, 2009.

On June 2, 2009, SFPP notified us that it would terminate the October 2008 settlement, as provided under the settlement, effective August 31, 2009. On July 31, 2009, SFPP filed substantial rate increases for East Line service to become effective September 1, 2009. We and several other shippers filed protests at the FERC challenging the rate increase and asking the FERC to suspend the effectiveness of the increased rates. On August 31, 2009, FERC issued an order suspending the effective date of the rate increase until January 1, 2010 and setting the rate increase for a full evidentiary hearing to be held in 2010. We are not in a position to predict the ultimate outcome of the rate proceeding.

We are a party to various other litigation and proceedings which we believe, based on advice of counsel, will not either individually or in the aggregate have a materially adverse impact on our financial condition, results of operations or cash flows.

**NOTE 14: Segment Information**

Our operations are currently organized into two reportable segments, Refining and HEP. Our operations that are not included in the Refining and HEP segments are included in Corporate and Other. Intersegment transactions are eliminated in our consolidated financial statements and are included in Consolidations and Eliminations.

The Refining segment includes the operations of our Navajo, Woods Cross and Tulsa Refineries and Holly Asphalt Company. It involves the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel, jet fuel and specialty lubricant products. The petroleum products produced by the Refining segment are primarily marketed in the southwest, rocky mountain and mid-continent regions of the United States and northern Mexico. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refinery that are marketed throughout North America and are distributed in Central and South America. Holly Asphalt Company manufactures and markets asphalt and asphalt products in Arizona, New Mexico, Texas and northern Mexico.

HEP is a variable interest entity. Therefore, HEP s purchase of the Crude Pipelines and Tankage Assets in 2008 qualified as a reconsideration event whereby we reassessed our beneficial interest in HEP. Following this transaction, we determined that our beneficial interest in HEP exceeded 50%. Accordingly, we reconsolidated HEP effective March 1, 2008 and no longer account for our investment in HEP under the equity method of accounting.

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The HEP segment involves all of the operations of HEP effective March 1, 2008 (date of reconsolidation). HEP owns and operates a system of petroleum product and crude gathering pipelines in Texas, New Mexico, Oklahoma and Utah, distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho, and Washington and refinery tankage in New Mexico and Utah. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines, by leasing certain pipeline capacity to Alon USA, Inc., by charging fees for terminalling refined products and other hydrocarbons and storing and providing other services at its storage tanks and terminals. The HEP segment also includes a 70% interest in Rio Grande which provides petroleum products transportation services. Additionally, HEP owns a 25% interest in SLC Pipeline that services refineries in the Salt Lake City, Utah area. Revenues from the HEP segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations and from HEP s interest in Rio Grande. Our revaluation of HEP s assets and liabilities at March 1, 2008 (date of reconsolidation) resulted in basis adjustments to our consolidated HEP balances. Therefore, our reported amounts for the HEP segment may not agree to amounts reported in HEP s periodic public filings.
The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2008.

| | Refining(1) | HEP(2) | Corporate and Other | Consolidations and Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Three Months Ended September 30, 2009** | | | | | |
| Sales and other revenues | $1,476,304 | $ 42,743 | $ 229 | $ (28,847) | $1,490,429 |
| Depreciation and amortization | $ 16,527 | $ 6,215 | $ 1,525 | $ | $ 24,267 |
| Income (loss) from operations | $ 50,584 | $ 23,231 | $(16,183) | $ (699) | $ 56,933 |
| Capital expenditures | $ 54,946 | $ 17,452 | $ 2,030 | $ (11,800) | $ 62,628 |
| **Three Months Ended September 30, 2008** | | | | | |
| Sales and other revenues | $1,711,445 | $ 30,518 | $ 570 | $ (22,613) | $1,719,920 |
| Depreciation and amortization | $ 9,666 | $ 6,044 | $ 1,030 | $ | $ 16,740 |
| Income (loss) from operations | $ 84,302 | $ 11,845 | $(13,171) | $ | $ 82,976 |
| Capital expenditures | $ 83,154 | $ 8,835 | $ 660 | $ | $ 92,649 |
| **Nine Months Ended September 30, 2009** | | | | | |
| Sales and other revenues | $3,133,133 | $115,470 | $ 3,307 | $ (72,277) | $3,179,633 |
| Depreciation and amortization | $ 46,310 | $ 18,515 | $ 5,263 | $ | $ 70,088 |
| Income (loss) from operations | $ 118,819 | $ 58,634 | $(40,583) | $ (699) | $ 136,171 |
| Capital expenditures | $ 181,413 | $ 73,478 | $ 2,930 | $ (11,800) | $ 246,021 |
| **Nine Months Ended September 30, 2008** | | | | | |
| Sales and other revenues | $4,925,022 | $ 67,234 | $ 1,857 | $ (50,387) | $4,943,726 |
| Depreciation and amortization | $ 28,646 | $ 14,274 | $ 3,058 | $ | $ 45,978 |
| Income (loss) from operations | $ 125,922 | $ 24,789 | $(37,916) | $ | $ 112,795 |
| Capital expenditures | $ 268,479 | $ 21,037 | $ 1,917 | $ | $ 291,433 |

(1) The Refining segment reflects the operations of our Tulsa Refinery beginning June 1, 2009, our date of acquisition.

(2) HEP segment revenues from external customers were $14.5 million and $7.9 million for the three months ended September 30, 2009 and 2008, respectively and $44 million and $16.8 million for the nine months ended September 30, 2009 and 2008, respectively.

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| | Refining | HEP | Corporate and Other | Consolidations and Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **September 30, 2009** | | | | | |
| Cash, cash equivalents and investments in marketable securities | $ | $ 4,050 | $ 95,503 | $ | $ 99,553 |
| Total assets | $1,879,753 | $538,538 | $307,237 | $(27,430) | $2,698,098 |
| **December 31, 2008** | | | | | |
| Cash, cash equivalents and investments in marketable securities | $ | $ 5,269 | $ 90,739 | $ | $ 96,008 |
| Total assets | $1,288,211 | $458,049 | $141,768 | $(13,803) | $1,874,225 |

**Note 15: Supplemental Guarantor/Non-Guarantor Financial Information**

Our obligations under the Holly Senior Notes have been jointly and severally guaranteed by the substantial majority of our existing and future restricted subsidiaries ( Guarantor Restricted Subsidiaries ). These guarantees are full and unconditional. HEP in which we have a 41% ownership interest and its subsidiaries (collectively, Non-Guarantor Non-Restricted Subsidiaries ), and certain of our other subsidiaries ( Non-Guarantor Restricted Subsidiaries ) have not guaranteed these obligations.

The following financial information presents condensed consolidating balance sheets, statements of income, and statements of cash flows of Holly Corporation (the Parent ), the Guarantor Restricted Subsidiaries, the Non-Guarantor Restricted Subsidiaries and the Non-Guarantor Non-Restricted Subsidiaries. The information has been presented as if the Parent accounted for its ownership in the Guarantor Restricted Subsidiaries, and the Guarantor Restricted Subsidiaries accounted for the ownership of the Non-Guarantor Restricted Subsidiaries and Non-Guarantor Non-Restricted Subsidiaries, using the equity method of accounting. The Guarantor Restricted Subsidiaries and the Non-Guarantor Restricted Subsidiaries are collectively the Restricted Subsidiaries.

Our revaluation of HEP s assets and liabilities at March 1, 2008 (date of reconsolidation) resulted in basis adjustments to our consolidated HEP balances. Therefore, our reported amounts for the HEP segment may not agree to amounts reported in HEP s periodic public filings.

**Condensed Consolidating Balance Sheet**

| September 30, 2009 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP[1] | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | | |
| **ASSETS** | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | $ 85,880 | $ (1,063) | 9,660 | $ | $ 94,477 | $ 4,050 | $ | $ 98,527 |
| Marketable securities | | 1,026 | | | 1,026 | | | 1,026 |
| Accounts receivable | 1,037 | 611,795 | | | 612,832 | 16,141 | (13,141) | 615,832 |
| Intercompany accounts receivable (payable) | (1,241,395) | 927,128 | 314,267 | | | | | |
| Inventories | | 298,117 | | | 298,117 | 165 | | 298,282 |
| Income taxes receivable | 5,384 | | | | 5,384 | | | 5,384 |
| Prepayments and other assets | 18,977 | 10,211 | | | 29,188 | 905 | (3,331) | 26,762 |
| Total current assets | (1,130,117) | 1,847,214 | 323,927 | | 1,041,024 | 21,261 | (16,472) | 1,045,813 |
| Properties and equipment, net | 22,998 | 900,247 | 147,510 | | 1,070,755 | 410,371 | (12,102) | 1,469,024 |
| Investment in subsidiaries | 2,053,074 | (1,486,648) | (324,740) | (241,686) | | 26,809 | | 26,809 |
| Intangibles and other assets | 6,756 | 68,455 | | | 75,211 | 80,097 | 1,144 | 156,452 |
| Total assets | $ 952,711 | $ 1,329,268 | $ 146,697 | $ (241,686) | $ 2,186,990 | $ 538,538 | $ (27,430) | $ 2,698,098 |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable | $ 8,509 | $ 817,676 | $ 2,844 | $ | $ 829,029 | $ 4,747 | $ (13,141) | $ 820,635 |
| Accrued liabilities | 26,466 | 12,541 | 303 | | 39,310 | 11,352 | (3,331) | 47,331 |
| Total current liabilities | 34,975 | 830,217 | 3,147 | | 868,339 | 16,099 | (16,472) | 867,966 |
| Long-term debt | 188,204 | | | | 188,204 | 417,628 | | 605,832 |
| Deferred income taxes | 95,399 | 152 | 93 | | 95,644 | | | 95,644 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other long-term liabilities | 47,572 | 37,407 | | | 84,979 | 13,759 | (17,438) | 81,300 |
| Distributions in excess of inv in HEP | | 324,737 | | | 324,737 | | (324,737) | |
| Equity Holly Corporation | 586,561 | 136,755 | 143,457 | (280,212) | 586,561 | 78,887 | (78,120) | 587,328 |
| Equity Noncontrolling interest | | | | 38,526 | 38,526 | 12,165 | 409,337 | 460,028 |
| Total liabilities and equity | $ 952,711 | $ 1,329,268 | $ 146,697 | $ (241,686) | $ 2,186,990 | $ 538,538 | $ (27,430) | $ 2,698,098 |

**Condensed Consolidating Balance Sheet**

| December 31, 2008 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP[(1)] | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | | |
| **ASSETS** | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | $ 33,316 | $ (1,182) | $ 3,402 | $ | $ 35,536 | $ 5,269 | $ | $ 40,805 |
| Marketable securities | 48,590 | 604 | | | 49,194 | | | 49,194 |
| Accounts receivable | 1,734 | 283,480 | 1,524 | | 286,738 | 14,477 | (11,451) | 289,764 |
| Intercompany accounts receivable (payable) | (1,419,212) | 1,134,118 | 285,094 | | | | | |
| Inventories | | 125,613 | | | 125,613 | 122 | | 125,735 |
| Income taxes receivable | 6,350 | | | | 6,350 | | | 6,350 |
| Prepayments and other assets | 13,814 | 6,842 | | | 20,656 | 471 | (2,352) | 18,775 |
| Total current assets | (1,315,408) | 1,549,475 | 290,020 | | 524,087 | 20,339 | (13,803) | 530,623 |
| Properties and equipment, net | 22,997 | 718,575 | 109,660 | | 851,232 | 354,090 | | 1,205,322 |
| Marketable securities (long-term) | 6,009 | | | | 6,009 | | | 6,009 |
| Investment in subsidiaries | 1,911,613 | 371,964 | (321,003) | (1,962,574) | | | | |
| Intangibles and other assets | | 48,651 | | | 48,651 | 83,620 | | 132,271 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total assets | $ 625,211 | $ 2,688,665 | $ 78,677 | $ (1,962,574) | $ 1,429,979 | $ 458,049 | $ (13,803) | $ 1,874,225 |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable | $ 9,269 | $ 384,285 | $ 1,021 | $ | $ 394,575 | $ 8,018 | $ (11,451) | $ 391,142 |
| Accrued liabilities | 15,086 | 8,118 | 11 | | 23,215 | 21,153 | (2,352) | 42,016 |
| Other liabilities | (8,130) | 8,130 | | | | | | |
| Short-term debt | | | | | | 29,000 | | 29,000 |
| Total current liabilities | 16,225 | 400,533 | 1,032 | | 417,790 | 58,171 | (13,803) | 462,158 |
| Long-term debt | | | | | | 341,914 | | 341,914 |
| Non-current liabilities | 41,693 | 5,033 | | | 46,726 | 17,604 | | 64,330 |
| Deferred income taxes | 24,894 | 44,597 | | | 69,491 | | | 69,491 |
| Distributions in excess of inv in HEP | | 326,889 | | | 326,889 | | (326,889) | |
| Equity Holly Corporation | 542,399 | 1,911,613 | 77,645 | (1,989,258) | 542,399 | 30,142 | (31,001) | 541,540 |
| Equity Noncontrolling interest | | | | 26,684 | 26,684 | 10,218 | 357,890 | 394,792 |
| Total liabilities and equity | $ 625,211 | $ 2,688,665 | $ 78,677 | $ (1,962,574) | $ 1,429,979 | $ 458,049 | $ (13,803) | $ 1,874,225 |

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**Condensed Consolidating Statement of Income**

| Three months ended September 30, 2009 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP(1) | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | |
| Sales and other revenues | $ 3,033 | $ 1,473,500 | $ | $ | $ 1,476,533 | $ 42,743 | $ (28,847) | $ 1,490,429 |
| Operating costs and expenses: | | | | | | | | |
| Cost of products sold | | 1,323,329 | 129 | | 1,323,458 | | (28,020) | 1,295,438 |
| Operating expenses | | 85,742 | | | 85,742 | 11,449 | (128) | 97,063 |
| General and administrative expenses | 15,056 | (241) | 65 | | 14,880 | 1,848 | | 16,728 |
| Depreciation and amortization | 987 | 16,748 | 317 | | 18,052 | 6,215 | | 24,267 |
| Total operating costs and expenses | 16,043 | 1,425,578 | 511 | | 1,442,132 | 19,512 | (28,148) | 1,433,496 |
| Income (loss) from operations | (13,010) | 47,922 | (511) | | 34,401 | 23,231 | (699) | 56,933 |
| Other income (expense): | | | | | | | | |
| Equity in earnings of subsidiaries | 56,769 | 7,691 | 8,118 | (64,460) | 8,118 | 711 | (8,183) | 646 |
| Interest income (expense) | (5,802) | 175 | 11 | | (5,616) | (6,979) | 421 | (12,174) |
| Acquisition costs | (1,701) | 1,323 | | | (378) | 1,144 | (1,144) | (378) |
| | 49,266 | 9,189 | 8,129 | (64,460) | 2,124 | (5,124) | (8,906) | (11,906) |
| Income (loss) before income taxes | 36,256 | 57,111 | 7,618 | (64,460) | 36,525 | 18,107 | (9,605) | 45,027 |
| Income tax provision | 13,566 | | | | 13,566 | 114 | | 13,680 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income | 22,690 | 57,111 | 7,618 | (64,460) | 22,959 | 17,993 | (9,605) | 31,347 |
| Less net income attributable to noncontrolling interest | | | | (126) | (126) | 269 | 7,720 | 7,863 |
| Net income attributable to Holly Corporation stockholders | $ 22,690 | $ 57,111 | $ 7,618 | $ (64,334) | $ 23,085 | $ 17,724 | $ (17,325) | $ 23,484 |

**Condensed Consolidating Statement of Income**

| Three months ended September 30, 2008 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP(1) | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | | (In thousands) | | | |
| Sales and other revenues | $ 59 | $ 1,711,941 | $ 15 | $ | $ 1,712,015 | $ 30,518 | $ (22,613) | $ 1,719,920 |
| Operating costs and expenses: | | | | | | | | |
| Cost of products sold | | 1,557,309 | 80 | | 1,557,389 | | (22,613) | 1,534,776 |
| Operating expenses | | 60,097 | | | 60,097 | 11,033 | | 71,130 |
| General and administrative expenses | 13,744 | (1,042) | | | 12,702 | 1,596 | | 14,298 |
| Depreciation and amortization | 807 | 9,437 | 452 | | 10,696 | 6,044 | | 16,740 |
| Total operating costs and expenses | 14,551 | 1,625,801 | 532 | | 1,640,884 | 18,673 | (22,613) | 1,636,944 |
| Income (loss) from operations | (14,492) | 86,140 | (517) | | 71,131 | 11,845 | | 82,976 |
| Other income (expense): | | | | | | | | |
| Equity in earnings of subsidiaries | 98,497 | 3,952 | 4,372 | (102,449) | 4,372 | | (4,372) | |
| | (8,312) | 8,405 | 97 | | 190 | (5,670) | | (5,480) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Interest income (expense) | | | | | | | | |
| Other Income | | | | | | | | |
| | 90,185 | 12,357 | 4,469 | (102,449) | 4,562 | (5,670) | (4,372) | (5,480) |
| Income (loss) before income taxes | 75,693 | 98,497 | 3,952 | (102,449) | 75,693 | 6,175 | (4,372) | 77,496 |
| Income tax provision | 25,667 | | | | 25,667 | 83 | | 25,750 |
| Net income | 50,026 | 98,497 | 3,952 | (102,449) | 50,026 | 6,092 | (4,372) | 51,746 |
| Less net income attributable to noncontrolling interest | | | | (117) | (117) | 164 | 1,800 | 1,847 |
| Net income attributable to Holly Corporation stockholders | $ 50,026 | $ 98,497 | $ 3,952 | $ (102,332) | $ 50,143 | $ 5,928 | $ (6,172) | $ 49,899 |

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**Condensed Consolidating Statement of Income**

| Nine months ended September 30, 2009 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP(1) | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | | (In thousands) | | | |
| Sales and other revenues | $ 3,228 | $ 3,133,154 | $ 58 | $ | $ 3,136,440 | $ 115,470 | $ (72,277) | $ 3,179,633 |
| Operating costs and expenses: | | | | | | | | |
| Cost of products sold | | 2,757,831 | 383 | | 2,758,214 | | (71,196) | 2,687,018 |
| Operating expenses | | 209,824 | | | 209,824 | 33,331 | (382) | 242,773 |
| General and administrative expenses | 37,655 | 873 | 65 | | 38,593 | 4,990 | | 43,583 |
| Depreciation and amortization | 2,924 | 47,698 | 951 | | 51,573 | 18,515 | | 70,088 |
| Total operating costs and expenses | 40,579 | 3,016,226 | 1,399 | | 3,058,204 | 56,836 | (71,578) | 3,043,462 |
| Income (loss) from operations | (37,351) | 116,928 | (1,341) | | 78,236 | 58,634 | (699) | 136,171 |
| Other income (expense): | | | | | | | | |
| Equity in earnings of subsidiaries | 136,125 | 19,210 | 21,367 | (155,335) | 21,367 | 1,374 | (21,432) | 1,309 |
| Interest income (expense) | (8,154) | 2,317 | 33 | | (5,804) | (17,903) | 419 | (23,288) |
| Acquisition costs | | (1,988) | | | (1,988) | (1,356) | 1,356 | (1,988) |
| | 127,971 | 19,539 | 21,400 | (155,335) | 13,575 | (17,885) | (19,657) | (23,967) |
| Income (loss) before income taxes | 90,620 | 136,467 | 20,059 | (155,335) | 91,811 | 40,749 | (20,356) | 112,204 |
| Income tax provision | 35,069 | | | | 35,069 | 317 | | 35,386 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income | 55,551 | 136,467 | 20,059 | (155,335) | 56,742 | 40,432 | (20,356) | 76,818 |
| Less net income attributable to noncontrolling interest | | | | (308) | (308) | 1,191 | 15,901 | 16,784 |
| Net income attributable to Holly Corporation stockholders | $ 55,551 | $ 136,467 | $ 20,059 | $ (155,027) | $ 57,050 | $ 39,241 | $ (36,257) | $ 60,034 |

**Condensed Consolidating Statement of Income**

| Nine months ended September 30, 2008 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP[1] | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | | |
| Sales and other revenues | $ 1,831 | $ 4,925,033 | $ 15 | $ | $ 4,926,879 | $ 67,234 | $ (50,387) | $ 4,943,726 |
| Operating costs and expenses: | | | | | | | | |
| Cost of products sold | | 4,588,539 | 427 | | 4,588,966 | | (50,203) | 4,538,763 |
| Operating expenses | | 181,450 | 53 | | 181,503 | 24,694 | (184) | 206,013 |
| General and administrative expenses | 35,998 | 702 | | | 36,700 | 3,477 | | 40,177 |
| Depreciation and amortization | 2,391 | 28,861 | 452 | | 31,704 | 14,274 | | 45,978 |
| Total operating costs and expenses | 38,389 | 4,799,552 | 932 | | 4,838,873 | 42,445 | (50,387) | 4,830,931 |
| Income (loss) from operations | (36,558) | 125,481 | (917) | | 88,006 | 24,789 | | 112,795 |
| Other income (expense): | | | | | | | | |
| Equity in earnings of subsidiaries | 171,079 | 11,154 | 11,651 | (182,233) | 11,651 | | (8,661) | 2,990 |
| | (27,927) | 34,444 | 420 | | 6,937 | (13,279) | | (6,342) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Interest income (expense) | 143,152 | 45,598 | 12,071 | (182,233) | 18,588 | (13,279) | (8,661) | (3,352) |
| Income (loss) before income taxes | 106,594 | 171,079 | 11,154 | (182,233) | 106,594 | 11,510 | (8,661) | 109,443 |
| Income tax provision | 36,111 | | | | 36,111 | 190 | | 36,301 |
| Net income | 70,483 | 171,079 | 11,154 | (182,233) | 70,483 | 11,320 | (8,661) | 73,142 |
| Less net income attributable to noncontrolling interest | | | | (86) | (86) | 519 | 2,709 | 3,142 |
| Net income attributable to Holly Corporation stockholders | $ 70,483 | $ 171,079 | $ 11,154 | $ (182,147) | $ 70,569 | $ 10,801 | $ (11,370) | $ 70,000 |

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**Condensed Consolidating Statement of Cash Flows**

| Nine months ended September 30, 2009 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP[1] | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | | |
| Cash flows from operating activities | $ (158,881) | $ 314,740 | $ 967 | $ | $ 156,826 | $ 44,788 | $ (21,962) | $ 179,652 |
| Cash flows from investing activities | | | | | | | | |
| Additions to properties, plants and equipment Holly | (2,930) | (138,104) | (43,309) | | (184,343) | | (34,200) | (218,543) |
| Additions to properties, plants and equipment HEP | | | | | | (73,478) | 46,000 | (27,478) |
| Acquisition of Tulsa Refinery Holly Corporation | | (157,814) | | | (157,814) | | | (157,814) |
| Investment in SLC Pipeline Holly Energy Partners | | | | | | (25,500) | | (25,500) |
| Purchases of marketable securities | (165,892) | | | | (165,892) | | | (165,892) |
| Sales and maturities of marketable securities | 220,281 | | | | 220,281 | | | 220,281 |
| **Net cash provided by (used for) investing activities** | 51,459 | (295,918) | (43,309) | | (287,768) | (98,978) | 11,800 | (374,946) |
| Cash flows from financing activities | | | | | | | | |
| Proceeds from issuance of senior notes, net of discounts Holly Corporation | 187,925 | | | | 187,925 | | | 187,925 |
| Proceeds from issuance of common units Holly Energy | | | | | | 58,355 | | 58,355 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Partners | | | | | | | | |
| Net borrowings under credit agreement Holly Energy Partners | | | | | | 45,000 | | 45,000 |
| Dividends | (22,569) | | | | (22,569) | | | (22,569) |
| Distributions to noncontrolling interest | | | | | | (44,993) | 21,634 | (23,359) |
| Purchase of treasury stock | (1,214) | | | | (1,214) | | | (1,214) |
| Contribution from joint venture partner | | (34,950) | 48,600 | | 13,650 | | | 13,650 |
| Excess tax benefit from equity based compensation | 2,140 | | | | 2,140 | | | 2,140 |
| Deferred financing costs | (6,356) | | | | (6,356) | | | (6,356) |
| Other | 60 | 16,247 | | | 16,307 | (5,391) | (11,472) | (556) |
| **Net cash provided by (used for) financing activities** | 159,986 | (18,703) | 48,600 | | 189,883 | 52,971 | 10,162 | 253,016 |
| Cash and cash equivalents | | | | | | | | |
| Increase (decrease) for the period | 52,564 | 119 | 6,258 | | 58,941 | (1,219) | | 57,722 |
| Beginning of period | 33,316 | (1,182) | 3,402 | | 35,536 | 5,269 | | 40,805 |
| End of period | $ 85,880 | $ (1,063) | $ 9,660 | $ | $ 94,477 | $ 4,050 | $ | $ 98,527 |

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**Condensed Consolidating Statement of Cash Flows**

| Nine months ended September 30, 2008 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Restricted Subsidiaries | Eliminations | Holly Corp. before consolidation of HEP[1] | Non-Guarantor Non-Restricted Subsidiaries (HEP segment) | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | | |
| Cash flows from operating activities | $ 50,985 | $ 84,522 | $ 17,786 | $ | $ 153,293 | $ 20,758 | $ (13,357) | $ 160,694 |
| Cash flows from investing activities | | | | | | | | |
| Additions to properties, plants and equipment Holly | (1,660) | (193,988) | (74,748) | | (270,396) | | | (270,396) |
| Additions to properties, plants and equipment HEP | | | | | | (21,190) | 153 | (21,037) |
| Purchases of marketable securities | (377,226) | | | | (377,226) | | | (377,226) |
| Sales and maturities of marketable securities | 516,062 | | | | 516,062 | | | 516,062 |
| Proceeds from sale of crude pipeline and tankage assets | | 171,000 | | | 171,000 | | | 171,000 |
| Increase in cash due to consolidation of HEP | | | | | | | 7,295 | 7,295 |
| Investment in HEP | | (290) | | | (290) | | | (290) |
| **Net cash provided by (used for) investing activities** | 137,176 | (23,278) | (74,748) | | 39,150 | (21,190) | 7,448 | 25,408 |
| Cash flows from financing activities | | | | | | | | |
| Net borrowings under credit agreements | | | | | | 24,000 | | 24,000 |
| Dividends | (21,585) | | | | (21,585) | | | (21,585) |
| Distributions to noncontrolling interest | | | | | | (27,485) | 12,840 | (14,645) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Purchase of treasury stock | (151,106) | | | | (151,106) | | | (151,106) |
| Contribution from joint venture partner | | (45,000) | 60,000 | | 15,000 | | | 15,000 |
| Excess tax benefit from equity based compensation | 4,275 | | | | 4,275 | | | 4,275 |
| Deferred financing costs | | | | | | (466) | 365 | (101) |
| Other | 494 | | | | 494 | (505) | (290) | (301) |
| **Net cash provided by (used for) financing activities** | (167,922) | (45,000) | 60,000 | | (152,922) | (4,456) | 12,915 | (144,463) |
| Cash and cash equivalents | | | | | | | | |
| Increase (decrease) for the period | 20,239 | 16,244 | 3,038 | | 39,521 | (4,888) | 7,006 | 41,639 |
| Beginning of period | 97,953 | (17,912) | 14,328 | | 94,369 | 7,006 | (7,006) | 94,369 |
| End of period | $ 118,192 | $ (1,668) | $ 17,366 | $ | $ 133,890 | $ 2,118 | $ | $ 136,008 |

(1) Includes Holly Corporation s investment in HEP under the equity method of accounting.

**Note 16: Subsequent Events**

***Holly Corporation***

On October 20, 2009, we announced a definitive agreement with Sinclair Oil Corporation ( Sinclair ) to purchase its 75,000 BPD refinery located in Tulsa, Oklahoma for $128.5 million. The purchase price will consist of $54.5 million in cash and $74 million in our common stock. Additionally, we have agreed to purchase approximately 500,000 barrels of inventory at the closing of this transaction at market value. We expect to close on this transaction in December 2009 and to fund the cash portion of this transaction and the related inventory purchase with cash on hand and proceeds from our recent $100 million private debt offering discussed below. We plan to integrate the operations of this facility and our existing 85,000 BPD Tulsa Refinery into a single refinery having an integrated crude processing rate of 125,000 BPD.

In conjunction with this transaction, we expect to enter into a long-term agreement with HEP for certain storage, loading, delivery and receiving services associated with HEP s new logistics and storage assets discussed below.

On October 20, 2009, we also announced the sale to Plains All American Pipeline, LP ( Plains ) of a portion of our crude oil storage tanks having an approximate storage capacity of 400,000 barrels and certain crude oil pipeline receiving facilities at our Tulsa Refinery for $40 million in cash. In connection with this transaction, we have entered into a 15-year lease agreement with Plains for use of these assets.

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On October 26, 2009 we issued $100 million aggregate principal amount of our senior notes as an add-on offering to the $200 million Holly Senior Notes issued in June 2009.

Additionally, on November 3, 2009 we upsized the Holly Credit Agreement to $350 under the accordion, to fund potential increases in our working capital needs as a result of the pending Sinclair acquisition.

***HEP***

On October 19, 2009, BP Plc, HEP s Rio Grande joint venture partner, consented to an agreement between HEP Navajo Southern, L.P. (one of HEP s wholly-owned subsidiaries) and Enterprise Products Operating LLC ( Enterprise ) under which HEP has agreed to sell HEP Navajo Southern, L.P. s 70% ownership interest in Rio Grande to Enterprise for $35 million. This transaction is expected to close in December 2009.

On October 20, 2009, HEP, also a party to the agreement with Sinclair as discussed above, announced an agreement to purchase certain logistics and storage assets from Sinclair consisting of storage tanks having approximately 1.4 million barrels of storage capacity, loading racks and a refined product delivery pipeline at the Sinclair refinery. HEP s $75 million purchase price will consist of $21.5 million in cash and $53.5 million in HEP common units.

On November 6, 2009, HEP closed on a public offering of 2,185,000 of its common units priced at $35.78 per unit, including 285,000 common units issued pursuant to the underwriters exercise of their over-allotment option. Aggregate net proceeds of $76.5 million, including our $1.5 million capital contribution to HEP in order to maintain our 2% general partner interest, will be used to fund the cash portion of HEP s pending asset acquisition from Sinclair, for other potential acquisitions including our current pipeline projects, to repay outstanding debt under the HEP Credit Agreement and / or for general partnership purposes.

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

This Item 2 contains forward-looking statements. See Forward-Looking Statements at the beginning of Part I of this Quarterly Report on Form 10-Q. In this document, the words we, our, ours and us refer only to Holly Corporation a its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person with certain exceptions. For periods prior to our reconsolidation of Holly Energy Partners, L.P. ( HEP ) effective March 1, 2008, the words we, our, ours and us exclude HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation. This Quarterly Report on Form 10-Q contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of Holly Corporation. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

**OVERVIEW**

We are principally an independent petroleum refiner operating three refineries in Artesia and Lovington, New Mexico (operated as one refinery and collectively known as the Navajo Refinery ), Woods Cross, Utah (the Woods Cross Refinery ) and Tulsa, Oklahoma (the Tulsa Refinery ). As of September 30, 2009, our refineries had a combined crude capacity of 216,000 BPSD. Our profitability depends largely on the spread between market prices for refined petroleum products and crude oil prices. At September 30, 2009, we also owned a 41% interest in HEP, which owns and operates pipeline and terminalling assets, and owns a 70% interest in Rio Grande Pipeline Company ( Rio Grande ) and a 25% interest in SLC Pipeline LLC ( SLC Pipeline ).

Our principal source of revenue is from the sale of high value light products such as gasoline, diesel fuel, jet fuel and specialty lubricant products in markets in the southwest, rocky mountain and mid-continent regions of the United States and in northern Mexico. For the nine months ended September 30, 2009, sales and other revenues were $3,179.6 million and net income attributable to Holly Corporation stockholders was $60 million. For the nine months ended September 30, 2008, sales and other revenues were $4,943.7 million and net income attributable to Holly Corporation stockholders was $70 million. Our principal expenses are costs of products sold and operating expenses. Our total operating costs and expenses for the nine months ended September 30, 2009 were $3,043.5 million compared to $4,830.9 million for the nine months ended September 30, 2008.

On June 1, 2009, we acquired the Tulsa Refinery from Sunoco, Inc. ( Sunoco ) for $157.8 million, including crude oil, refined product and other inventories totaling $92.8 million. The Tulsa Refinery is located on an approximate 750-acre site in Tulsa, Oklahoma and has a total crude oil throughput capacity of 85,000 BPSD. The refinery produces fuel products including gasoline, diesel fuel and jet fuel and serves markets in the mid-continent region of the United States and also produces specialty lubricant products that are marketed throughout North America and are distributed in Central and South America.

On June 10, 2009, we issued $200 million in aggregate principal amount of 9.875% senior notes due 2017 (the Holly Senior Notes ). A portion of the $188 million in net proceeds received was used for post-closing payments for inventories of crude oil and refined products from Sunoco following the closing of the Tulsa Refinery purchase on June 1, 2009. On October 26, 2009 we issued $100 million aggregate principal amount of our senior notes as an add-on offering to the Holly Senior Notes that we intend to use to fund the cash portion of our pending acquisition of Sinclair Oil Company s ( Sinclair ) 75,000 BPD refinery located in Tulsa, Oklahoma (see discussion under planned capital expenditures ).

HEP is a variable interest entity ( VIE ) as defined under Accounting Standards Codification ( ASC ) Topic Variable Interest Entities (previously Financial Accounting Standards Board ( FASB ) Interpretation 46(R)). Under the provisions of this topic, HEP s purchase of our crude pipelines and tankage assets in 2008 (the Crude Pipelines and Tankage Assets ) qualified as a reconsideration event whereby we reassessed our beneficial interest in HEP. Following this transaction, we determined that our beneficial interest in HEP exceeded 50%. Accordingly, we reconsolidated HEP effective March 1, 2008 and no longer account for our investment in HEP under the equity method of accounting.

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**RESULTS OF OPERATIONS**
**Financial Data (Unaudited)**

| | Three Months Ended September 30, | | Change from 2008 | |
|---|---|---|---|---|
| | 2009 | 2008 | Change | Percent |
| | (In thousands, except per share data) | | | |
| Sales and other revenues | $ 1,490,429 | $ 1,719,920 | $ (229,491) | (13.3)% |
| Operating costs and expenses: | | | | |
| Cost of products sold (exclusive of depreciation and amortization) | 1,295,438 | 1,534,776 | (239,338) | (15.6) |
| Operating expenses (exclusive of depreciation and amortization) | 97,063 | 71,130 | 25,933 | 36.5 |
| General and administrative expenses (exclusive of depreciation and amortization) | 16,728 | 14,298 | 2,430 | 17.0 |
| Depreciation and amortization | 24,267 | 16,740 | 7,527 | 45.0 |
| Total operating costs and expenses | 1,433,496 | 1,636,944 | (203,448) | (12.4) |
| Income from operations | 56,933 | 82,976 | (26,043) | (31.4) |
| Other income (expense): | | | | |
| Equity in earnings of SLC Pipeline | 646 | | 646 | |
| Interest income | 231 | 1,896 | (1,665) | (87.8) |
| Interest expense | (12,405) | (7,376) | (5,029) | 68.2 |
| Acquisition costs Tulsa refineries | (378) | | (378) | |
| | (11,906) | (5,480) | (6,426) | 117.3 |
| Income before income taxes | 45,027 | 77,496 | (32,469) | (41.9) |
| Income tax provision | 13,680 | 25,750 | (12,070) | (46.9) |
| Net income[(1)] | 31,347 | 51,746 | (20,399) | (39.4) |
| Less noncontrolling interest in net income[(1)] | 7,863 | 1,847 | 6,016 | 325.7 |
| Net income attributable to Holly Corporation stockholders[(1)] | $ 23,484 | $ 49,899 | $ (26,415) | (52.9)% |
| Net income per share attributable to Holly Corporation stockholders basic | $ 0.47 | $ 1.00 | $ (0.53) | (53.0)% |
| Net income per share attributable to Holly Corporation stockholders diluted | $ 0.47 | $ 1.00 | $ (0.53) | (53.0)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash dividends declared per common share | $ | 0.15 | $ | 0.15 | $ | | % |
| | | | | | | | |
| Average number of common shares outstanding: | | | | | | | |
| Basic | | 50,244 | | 49,717 | | 527 | 1.1% |
| Diluted | | 50,327 | | 50,032 | | 295 | 0.6% |

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| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 | Change from 2008 Change | Change from 2008 Percent |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| Sales and other revenues | $ 3,179,633 | $ 4,943,726 | $ (1,764,093) | (35.7)% |
| Operating costs and expenses: | | | | |
| Cost of products sold (exclusive of depreciation and amortization) | 2,687,018 | 4,538,763 | (1,851,745) | (40.8) |
| Operating expenses (exclusive of depreciation and amortization) | 242,773 | 206,013 | 36,760 | 17.8 |
| General and administrative expenses (exclusive of depreciation and amortization) | 43,583 | 40,177 | 3,406 | 8.5 |
| Depreciation and amortization | 70,088 | 45,978 | 24,110 | 52.4 |
| Total operating costs and expenses | 3,043,462 | 4,830,931 | (1,787,469) | (37.0) |
| Income from operations | 136,171 | 112,795 | 23,376 | 20.7 |
| Other income (expense): | | | | |
| Equity in earnings of SLC Pipeline | 1,309 | | 1,309 | |
| Interest income | 2,561 | 9,277 | (6,716) | (72.4) |
| Interest expense | (25,849) | (15,619) | (10,230) | 65.5 |
| Acquisition costs Tulsa refineries | (1,988) | | (1,988) | |
| Equity in earnings of HEP | | 2,990 | (2,990) | (100.0) |
| | (23,967) | (3,352) | (20,615) | 615.0 |
| Income before income taxes | 112,204 | 109,443 | 2,761 | 2.5 |
| Income tax provision | 35,386 | 36,301 | (915) | (2.5) |
| Net income(1) | 76,818 | 73,142 | 3,676 | 5.0 |
| Less noncontrolling interest in net income(1) | 16,784 | 3,142 | 13,642 | 434.2 |
| Net income attributable to Holly Corporation stockholders(1) | $ 60,034 | $ 70,000 | $ (9,966) | (14.2)% |
| Net income per share attributable to Holly Corporation stockholders basic | $ 1.20 | $ 1.39 | $ (0.19) | (13.7)% |
| Net income per share attributable to Holly Corporation stockholders diluted | $ 1.19 | $ 1.38 | $ (0.19) | (13.8)% |

| | | | | |
|---|---|---|---|---|
| Cash dividends declared per common share | $ 0.45 | $ 0.45 | $ | % |
| Average number of common shares outstanding: | | | | |
| Basic | 50,153 | 50,339 | (186) | (0.4)% |
| Diluted | 50,272 | 50,717 | (445) | (0.9)% |

**Balance Sheet Data (Unaudited)**

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Cash, cash equivalents and investments in marketable securities | $ 99,553 | $ 96,008 |
| Working capital | $ 177,847 | $ 68,465 |
| Total assets | $2,698,098 | $1,874,225 |
| Long-term debt Holly Corporation | $ 188,204 | $ |
| Long-term debt Holly Energy Partners | $ 417,628 | $ 341,914 |
| Total equity[1] | $1,047,356 | $ 936,332 |

(1) During the first quarter of 2009, we adopted accounting standards under ASC Topic Noncontrolling Interest in a Subsidiary (previously Statement of Financial Accounting Standard ( SFAS ) No. 160). As a result, net income attributable to the noncontrolling interest in our HEP subsidiary is now presented as an adjustment to net income to arrive at Net income attributable to Holly Corporation stockholders in

our Consolidated Statements of Income. Prior to our adoption of these standards, this amount was presented as Minority interest in earnings of HEP, a non-operating expense item before Income before income taxes. Additionally, equity attributable to noncontrolling interests is now presented as a separate component of total equity in our consolidated financial statements. We have adopted these standards on a retrospective basis. While this presentation differs from previous requirements under generally accepted accounting principles in the United States ( GAAP ), it did not affect our net income and equity attributable to Holly Corporation stockholders.

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**Other Financial Data (Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Net cash provided by operating activities | $ 38,102 | $ 46,081 | $ 179,652 | $ 160,694 |
| Net cash provided by (used for) investing activities | $(62,628) | $(46,076) | $(374,946) | $ 25,408 |
| Net cash provided by (used for) financing activities | $ 14,365 | $(18,768) | $ 253,016 | $(144,463) |
| Capital expenditures | $ 62,628 | $ 92,649 | $ 246,021 | $ 291,433 |
| EBITDA [1] | $ 73,605 | $ 97,869 | $ 188,796 | $ 158,621 |

(1) Earnings before interest, taxes, depreciation and amortization, which we refer to as ( EBITDA ), is calculated as net income attributable to Holly Corporation stockholders plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under accounting principles generally accepted in the United States; however, the amounts included in the EBITDA calculation are derived from

amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for financial covenants. EBITDA presented above is reconciled to net income under  Reconciliations to Amounts

Reported Under Generally Accepted Accounting Principles following Item 3 of Part I of this Form 10-Q.

Our operations are currently organized into two reportable segments, Refining and HEP. Our operations that are not included in the Refining and HEP segment are included in Corporate and Other. Intersegment transactions are eliminated in our consolidated financial statements and are included in Consolidations and Eliminations.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | | |
| Sales and other revenues | | | | |
| Refining[1] | $ 1,476,304 | $ 1,711,445 | $ 3,133,133 | $ 4,925,022 |
| HEP[2] | 42,743 | 30,518 | 115,470 | 67,234 |
| Corporate and Other | 229 | 570 | 3,307 | 1,857 |
| Consolidations and Eliminations | (28,847) | (22,613) | (72,277) | (50,387) |
| Consolidated | $ 1,490,429 | $ 1,719,920 | $ 3,179,633 | $ 4,943,726 |
| Operating income (loss) | | | | |
| Refining[1] | $ 50,584 | $ 84,302 | $ 118,819 | $ 125,922 |
| HEP[2] | 23,231 | 11,845 | 58,634 | 24,789 |
| Corporate and Other | (16,183) | (13,171) | (40,583) | (37,916) |
| Consolidations and Eliminations | (699) | | (699) | |
| Consolidated | $ 56,933 | $ 82,976 | $ 136,171 | $ 112,795 |

(1) The Refining segment includes the operations of our Navajo, Woods Cross and Tulsa Refineries and Holly Asphalt Company. The Refining segment involves the purchase and refining of crude oil and

wholesale and branded marketing of refined products, such as gasoline, diesel fuel, jet fuel and specialty lubricant products. The petroleum products produced by the Refining segment are primarily marketed in the southwest, rocky mountain and mid-continent regions of the United States and northern Mexico. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refinery that are marketed throughout North America and are distributed in Central and South America. Holly Asphalt Company manufactures and markets asphalt and asphalt products in Arizona, New Mexico, Texas

and northern
Mexico.

(2) The HEP segment involves all of the operations of HEP effective March 1, 2008 (date of reconsolidation). HEP owns and operates a system of petroleum product and crude gathering pipelines in Texas, New Mexico, Oklahoma and Utah, distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho, and Washington and refinery tankage in New Mexico and Utah. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines and by charging fees for terminalling petroleum products and other hydrocarbons, and storing and providing other services at their storage tanks and terminals. The HEP segment also includes a 70% interest in Rio Grande

which provides petroleum products transportation services. Additionally, HEP owns a 25% interest in the SLC Pipeline that services refineries in the Salt Lake City, Utah area. Revenues from the HEP segment are earned through transactions for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations and from HEP s interest in Rio Grande and SLC Pipeline.

**Refining Operating Data (Unaudited)**

Our refinery operations include the Navajo, Woods Cross and Tulsa Refineries. The following tables set forth information, including non-GAAP performance measures, about our consolidated refinery operations. The cost of products and refinery gross margin do not include the effect of depreciation and amortization. Reconciliations to amounts reported under GAAP are provided under Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part I of this Form 10-Q.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| ***Navajo Refinery*** | | | | |
| Crude charge (BPD) (1) | 86,250 | 78,610 | 76,670 | 78,200 |
| Refinery production (BPD) (2) | 93,620 | 88,710 | 84,560 | 86,780 |
| Sales of produced refined products (BPD) | 94,000 | 88,920 | 84,100 | 87,630 |
| Sales of refined products (BPD) (3) | 96,580 | 94,760 | 88,110 | 96,290 |
| Refinery utilization (4) | 86.2% | 92.5% | 80.7% | 92.0% |

| | | | | |
|---|---|---|---|---|
| Average per produced barrel (5) | | | | |
| Net sales | $ 78.15 | $ 133.44 | $ 69.21 | $ 122.82 |
| Cost of products (6) | 70.88 | 120.75 | 60.25 | 113.76 |
| Refinery gross margin | 7.27 | 12.69 | 8.96 | 9.06 |
| Refinery operating expenses (7) | 4.37 | 4.92 | 4.88 | 4.96 |
| Net operating margin | $ 2.90 | $ 7.77 | $ 4.08 | $ 4.10 |
| Feedstocks: | | | | |
| Sour crude oil | 86% | 75% | 84% | 79% |
| Sweet crude oil | 6% | 13% | 6% | 10% |
| Other feedstocks and blends | 8% | 12% | 10% | 11% |
| Total | 100% | 100% | 100% | 100% |
| Sales of produced refined products: | | | | |
| Gasolines | 56% | 56% | 57% | 57% |
| Diesel fuels | 33% | 34% | 33% | 33% |
| Jet fuels | 3% | 1% | 2% | 1% |
| Fuel oil | 4% | 3% | 3% | 3% |
| Asphalt | 2% | 3% | 3% | 3% |
| LPG and other | 2% | 3% | 2% | 3% |
| Total | 100% | 100% | 100% | 100% |

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
|---|---|---|---|---|
| ***Woods Cross Refinery***(8) | | | | |
| Crude charge (BPD) (1) | 26,860 | 14,400 | 25,670 | 21,090 |
| Refinery production (BPD) (2) | 27,630 | 15,080 | 26,220 | 21,330 |
| Sales of produced refined products (BPD) | 27,100 | 17,250 | 27,060 | 22,090 |
| Sales of refined products (BPD) (3) | 27,150 | 18,450 | 27,520 | 23,470 |
| Refinery utilization (4) | 86.7% | 55.4% | 81.9% | 81.1% |
| Average per produced barrel (5) | | | | |
| Net sales | $ 80.87 | $ 145.86 | $ 66.87 | $ 124.98 |
| Cost of products (6) | 65.68 | 117.82 | 55.22 | 108.40 |
| Refinery gross margin | 15.19 | 28.04 | 11.65 | 16.58 |
| Refinery operating expenses (7) | 6.44 | 8.78 | 6.45 | 7.59 |
| Net operating margin | $ 8.75 | $ 19.26 | $ 5.20 | $ 8.99 |
| Feedstocks: | | | | |
| Sour crude oil | 6% | % | 4% | 1% |
| Sweet crude oil | 61% | 68% | 63% | 74% |
| Black wax crude oil | 27% | 23% | 28% | 20% |
| Other feedstocks and blends | 6% | 9% | 5% | 5% |
| Total | 100% | 100% | 100% | 100% |
| Sales of produced refined products: | | | | |
| Gasolines | 59% | 59% | 65% | 63% |
| Diesel fuels | 32% | 35% | 28% | 28% |
| Jet fuels | 3% | 1% | 1% | 1% |
| Fuel oil | 3% | 3% | 3% | 5% |
| Asphalt | 2% | 1% | 1% | 1% |
| LPG and other | 1% | 1% | 2% | 2% |
| Total | 100% | 100% | 100% | 100% |
| ***Tulsa Refinery***(9) | | | | |
| Crude charge (BPD) (1) | 66,230 | | 28,300 | |
| Refinery production (BPD) (2) | 64,230 | | 27,400 | |
| Sales of produced refined products (BPD) | 60,600 | | 26,080 | |
| Sales of refined products (BPD)(3) | 60,850 | | 26,250 | |
| Refinery utilization (4) | 77.9% | % | 74.5% | % |

| | | | | |
|---|---|---|---|---|
| Average per produced barrel (5) | | | | |
| Net sales | $ 76.80 | $ | $ 76.65 | $ |
| Cost of products (6) | 70.10 | | 70.80 | |
| Refinery gross margin | 6.70 | | 5.85 | |
| Refinery operating expenses (7) | 4.64 | | 4.76 | |
| Net operating margin | $ 2.06 | $ | $ 1.09 | $ |
| Feedstocks: | | | | |
| Sour crude oil | % | % | % | % |
| Sweet crude oil | 100% | % | 100% | % |
| Other feedstocks and blends | % | % | % | % |
| Total | 100% | % | 100% | % |