

HollyFrontier Corp
Form 10-Q
November 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012
OR

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

For the transition period from _____ to _____
Commission File Number 1-3876

HOLYFRONTIER 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.)

2828 N. Harwood, Suite 1300	75201
Dallas, Texas	
(Address of principal executive offices)	(Zip Code)
(214) 871-3555	

Registrant's telephone number, including area code

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: HollyFrontier Corp - Form 10-Q

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

203,145,233 shares of Common Stock, par value \$.01 per share, were outstanding on October 31, 2012.

Table of Content

HOLLYFRONTIER CORPORATION
INDEX

	Page
<u>Forward-Looking Statements</u>	<u>3</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Definitions</u>	<u>4</u>
<u>Item 1. Financial Statements</u>	
Consolidated Balance Sheets <u>September 30, 2012 (Unaudited) and December 31, 2011</u>	<u>6</u>
<u>Consolidated Statements of Income (Unaudited)</u> <u>Three and Nine Months Ended September 30, 2012 and 2011</u>	<u>7</u>
Consolidated Statements of Comprehensive Income (Unaudited) <u>Three and Nine Months Ended September 30, 2012 and 2011</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>Nine Months Ended September 30, 2012 and 2011</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>10</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles</u>	<u>52</u>
<u>Item 4. Controls and Procedures</u>	<u>55</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>56</u>
<u>Item 1A. Risk Factors</u>	<u>57</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>57</u>
<u>Item 6. Exhibits</u>	<u>57</u>
<u>Signatures</u>	<u>58</u>
<u>Index to Exhibits</u>	<u>59</u>

Table of Content

FORWARD-LOOKING STATEMENTS

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier 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 HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. 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 Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those in Part II, Item 1 “Legal Proceedings” 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 existing or future acquired operations;
- 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 SEC 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, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material 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, 2011 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 heading “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

Edgar Filing: HollyFrontier Corp - Form 10-Q

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.

Table of Content

PART I. FINANCIAL INFORMATION

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).

“Aromatic oil” is long chain oil that is highly aromatic in nature that is used to manufacture tires and in the production of asphalt.

“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.

“Biodiesel” means a clean alternative fuel produced from renewable biological resources.

“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 a primary 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 the vapor slightly above atmospheric pressure turning it back to liquid in order to purify, fractionate or form the desired products.

“Delayed coker unit” is a refinery unit that removes carbon from the bottom cuts of crude oil to produce unfinished light transportation fuels and petroleum coke.

“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.

Edgar Filing: HollyFrontier Corp - Form 10-Q

“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.

Table of Content

“Lubricant” or “lube” means a solvent neutral paraffinic product used in passenger and commercial vehicle engine oils, specialty products for metal working or heat transfer and other industrial applications.

“MSAT2” means Control of Hazardous Air Pollutants from Mobile Sources, a rule issued by the U.S. Environmental Protection Agency to reduce hazardous emissions from motor vehicles and motor vehicle fuels.

“MEK” means a lube process that separates waxy oil from non-waxy oils using methyl ethyl ketone as a solvent.

“MMBTU” means one million British thermal units.

“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.

“Paraffinic oil” is a high paraffinic, high gravity oil produced by extracting aromatic oils and waxes from gas oil and is used in producing high-grade lubricating oils.

“Refinery gross margin” means the difference between average net sales price and average product costs per produced barrel of refined products sold. 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.

“Roofing flux” is produced from the bottom cut of crude oil and is the base oil used to make roofing shingles for the housing industry.

“RFS2” or advanced renewable fuel standard is a regulatory mandate required by the Energy Independence and Security Act of 2007 that requires 36 billion gallons of renewable fuel to be blended into transportation fuels by 2022. New mandated blending requirements for this standard became effective July 1, 2010.

“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 deasphalts 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.

“Scanfiner” is a refinery unit that removes sulfur from gasoline to produce low sulfur gasoline blendstock.

“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.

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

“WCS” means Western Canada Select crude oil and is made up of Canadian heavy conventional and bitumen crude oils blended with sweet synthetic and condensate diluents.

Edgar Filing: HollyFrontier Corp - Form 10-Q

“WTI” means West Texas Intermediate and is a grade of crude oil used as a common benchmark in oil pricing. WTI is a sweet crude oil and has a relatively low density.

Table of Content

Item 1. Financial Statements

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

	September 30, 2012 (Unaudited)	December 31, 2011 As Adjusted (see Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: \$1,993 and \$6,369, respectively)	\$2,057,408	\$1,578,904
Marketable securities	280,409	211,639
Accounts receivable: Product and transportation (HEP: \$42,832 and \$37,290, respectively)	734,662	703,691
Crude oil resales	2,212	5,166
	736,874	708,857
Inventories: Crude oil and refined products	1,406,147	1,052,084
Materials and supplies (HEP: \$1,233 and \$1,483, respectively)	79,303	62,535
	1,485,450	1,114,619
Income taxes receivable	40,548	87,277
Prepayments and other (HEP: \$3,080 and \$2,246, respectively)	31,232	219,450
Total current assets	4,631,921	3,920,746
Properties, plants and equipment, at cost (HEP: \$1,122,334 and \$1,099,579, respectively)	3,823,731	3,631,787
Less accumulated depreciation (HEP: \$(127,408) and \$(93,200), respectively)	(703,799)	(578,882)
	3,119,932	3,052,905
Marketable securities (long-term)	5,519	50,067
Other assets: Turnaround costs	83,585	57,060
Goodwill (HEP: \$288,991 and \$288,991, respectively)	2,338,302	2,336,510
Intangibles and other (HEP: \$76,096 and \$75,902, respectively)	166,677	158,955
	2,588,564	2,552,525
Total assets	\$10,345,936	\$9,576,243
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: \$11,303 and \$21,709, respectively)	\$1,530,714	\$1,504,694
Income taxes payable	150,899	40,366
Accrued liabilities (HEP: \$19,315 and \$16,006, respectively)	219,980	169,940
Deferred income tax liabilities	175,567	175,683
Total current liabilities	2,077,160	1,890,683
Long-term debt (HEP: \$874,434 and \$598,761, respectively)	1,346,227	1,214,742
Deferred income taxes	399,205	463,721
Other long-term liabilities (HEP: \$7,574 and \$4,000, respectively)	163,848	171,197
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, \$1.00 par value – 5,000,000 shares authorized; none issued	—	—

Edgar Filing: HollyFrontier Corp - Form 10-Q

Common stock \$.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of September 30, 2012 and December 31, 2011	2,560	2,563
Additional capital	3,904,379	3,859,367
Retained earnings	2,806,117	1,964,656
Accumulated other comprehensive income (loss)	(62,521)	77,873
Common stock held in treasury, at cost – 52,417,146 and 46,630,220 shares as of September 30, 2012 and December 31, 2011, respectively	(886,259)	(700,449)
Total HollyFrontier stockholders' equity	5,764,276	5,204,010
Noncontrolling interest	595,220	631,890
Total equity	6,359,496	5,835,900
Total liabilities and equity	\$10,345,936	\$9,576,243

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of September 30, 2012 and December 31, 2011. HEP is a consolidated variable interest entity.

In July 2012, HEP acquired our 75% interest in UNEV Pipeline, LLC (“UNEV”). We have recast HEP's asset and liability balances at December 31, 2011 presented parenthetically above to include balances attributable to UNEV. See Note 4.

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Uaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Sales and other revenues	\$5,204,798	\$5,173,398	\$14,943,217
Operating costs and expenses:			\$10,467,116
Cost of products sold (exclusive of depreciation and amortization)	3,898,736	3,989,927	11,767,417
Operating expenses (exclusive of depreciation and amortization)	233,859	227,883	8,421,639
General and administrative expenses (exclusive of depreciation and amortization)	28,787	43,141	698,212
Depreciation and amortization	65,112	43,240	78,641
Total operating costs and expenses	4,226,494	4,304,191	12,732,212
Income from operations	978,304	869,207	9,108,631
Other income (expense):			
Earnings of equity method investments	852	532	2,455
Interest income	2,219	204	1,739
Interest expense	(21,103	) (25,074	3,360
Gain on sale of marketable equity securities	—	—	946
Merger transaction costs	—	(9,100	) (81,360
Income before income taxes	(18,032	) (33,438	) (56,471
Income tax provision:			
Current	324,211	296,670	) (753,018
Deferred	25,411	8,088	461,210
Net income	349,622	304,758	4,520
Less net income attributable to noncontrolling interest	610,650	531,011	775,746
Net income attributable to HollyFrontier stockholders	10,277	7,923	465,730
Earnings per share attributable to HollyFrontier stockholders:			
Basic	\$2.95	\$2.50	\$6.46
Diluted	\$2.94	\$2.48	\$5.66
Cash dividends declared per common share	\$1.15	\$0.59	\$5.63
Average number of common shares outstanding:			
Basic	203,557	209,583	\$0.74
Diluted	204,434	210,579	141,353
			142,092

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)
 (In thousands)

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Net income	\$610,650	\$531,011	\$1,360,040	\$823,855
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	13	(655	) (203	) (972
Unrealized gain (loss), net of reclassifications from contract settlements of hedging instruments	(111,333	) 23,272	(236,147	) 24,864
Pension curtailment adjustment	—	—	7,102	—
Retirement medical obligation adjustment	—	9	—	9
Other comprehensive income (loss) before income taxes	(111,320	) 22,626	(229,248	) 23,901
Income tax expense (benefit)	(43,353	) 8,520	(89,383	) 8,618
Other comprehensive income (loss)	(67,967	) 14,106	(139,865	) 15,283
Total comprehensive income	542,683	545,117	1,220,175	839,138
Less noncontrolling interest in comprehensive income	10,406	8,640	25,001	25,575
Comprehensive income attributable to HollyFrontier stockholders	\$532,277	\$536,477	\$1,195,174	\$813,563

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2012	2011	As Adjusted (See Note 2)
Cash flows from operating activities:			
Net income	\$1,360,040	\$823,855	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	178,162	106,380	
Earnings of equity method investments, net of distributions	169	198	
Gain on sale of marketable equity securities	(326)	—	
Deferred income taxes	22,728	4,520	
Equity-based compensation expense	25,399	15,535	
Change in fair value – derivative instruments	(10,977)	(5,920)	
(Increase) decrease in current assets:			
Accounts receivable	(29,474)	495,971	
Inventories	(370,831)	(195,575)	
Income taxes receivable	53,465	51,034	
Prepayments and other	16,690	7,778	
Increase (decrease) in current liabilities:			
Accounts payable	(96,263)	(403,762)	
Income taxes payable	110,533	182,468	
Accrued liabilities	(6,166)	28,999	
Turnaround expenditures	(74,612)	(27,985)	
Other, net	(6,749)	5,707	
Net cash provided by operating activities	1,171,788	1,089,203	
Cash flows from investing activities:			
Additions to properties, plants and equipment	(178,235)	(98,428)	
Additions to properties, plants and equipment – HEP	(29,302)	(175,795)	
Increase in cash due to merger with Frontier	—	872,158	
Investment in Sabine Biofuels	(2,000)	(9,125)	
Purchases of marketable securities	(236,315)	(370,042)	
Sales and maturities of marketable securities	212,216	194,386	
Net cash provided by (used for) investing activities	(233,636)	(413,154)	
Cash flows from financing activities:			
Borrowings under credit agreement – HEP	523,000	93,000	
Repayments under credit agreement – HEP	(292,000)	(50,000)	
Net proceeds from issuance of senior notes – HEP	294,750	—	
Principal tender on senior notes – HFC	(205,000)	(15)	
Principal tender on senior notes – HEP	(185,000)	—	
Purchase of treasury stock	(190,307)	(38,955)	
Structured stock repurchase arrangement	8,620	—	
Contribution from joint venture partner	6,000	27,500	

Edgar Filing: HollyFrontier Corp - Form 10-Q

Dividends	(382,610	)	(129,377)
Distributions to noncontrolling interest	(43,749	)	(37,929)
Excess tax benefit from equity-based compensation	16,021		1,399	
Purchase of units for incentive grants – HEP	(4,919	)	(1,641)
Deferred financing costs	(3,289	)	(11,724)
Other	(1,165	)	(857)
Net cash used for financing activities	(459,648	)	(148,599)

Cash and cash equivalents:

Increase for the period	478,504	1,353,758
Beginning of period	1,578,904	229,101
End of period	\$2,057,408	\$1,582,859

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$77,184	\$50,570
Income taxes	\$622,314	\$225,499

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier 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 these financial statements, the words “we,” “our,” “ours” and “us” refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person, with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries.

We merged with Frontier Oil Corporation (“Frontier”) effective July 1, 2011. Concurrent with the merger, we changed our name from Holly Corporation (“Holly”) to HollyFrontier and changed the ticker symbol for our common stock traded on the New York Stock Exchange to “HFC” (see Note 3). Accordingly, these financial statements include Frontier, its consolidated subsidiaries and the operations of the merged Frontier businesses effective July 1, 2011, but not prior to this date.

We are principally an independent petroleum refiner that produces high-value light products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate petroleum refineries that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. As of September 30, 2012, we:

• owned and operated a petroleum refinery in El Dorado, Kansas (the “El Dorado Refinery”), two refinery facilities located in Tulsa, Oklahoma (collectively, the “Tulsa Refineries”), a 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, the “Navajo Refinery”), a refinery located in Cheyenne, Wyoming (the “Cheyenne Refinery”) and a refinery in Woods Cross, Utah (the “Woods Cross Refinery”);
• owned and operated NK Asphalt Partners (“NK Asphalt”) which operates various asphalt terminals in Arizona and New Mexico;
• owned Ethanol Management Company (“EMC”), a products terminal and blending facility near Denver, Colorado and a 50% interest in Sabine Biofuels II, LLC (“Sabine Biofuels”), a biodiesel production facility located in Port Arthur, Texas; and
• owned a 44% interest in HEP, a consolidated variable interest entity (“VIE”), which includes our 2% general partner interest. HEP owns and operates logistic assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that principally support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.’s (“Alon”) refinery in Big Spring, Texas. Additionally, HEP owns a 75% interest in UNEV, which owns a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas (the “UNEV Pipeline”) and a 25% interest in SLC Pipeline LLC (the “SLC Pipeline”), a 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

Edgar Filing: HollyFrontier Corp - Form 10-Q

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, 2012, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011 and consolidated cash flows for the nine months ended September 30, 2012 and 2011 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 Annual Report on Form 10-K for the year ended December 31, 2011 that has been filed with the SEC.

Our results of operations for the nine months ended September 30, 2012 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2012.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Accounts Receivable: Our accounts receivable consist of amounts due from customers that 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. We reserve for doubtful accounts based on our historical loss experience as well as specific accounts identified as high risk, which historically have been minimal. Credit losses are charged to the allowance for doubtful accounts when an account is deemed uncollectible. Our allowance for doubtful accounts was \$2.5 million and \$3.5 million at September 30, 2012 and December 31, 2011, respectively.

Inventories: 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.

Goodwill: Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually, or more frequently if events or circumstances indicate the possibility of impairment. As of September 30, 2012, there have been no impairments to goodwill.

NOTE 2: Change in Accounting Principle

In the first quarter of 2012, we changed our policy of reporting certain same-party accounts receivable and payable balances in the consolidated balance sheets to reflect a net amount due under contractual netting agreements. Prior to this change, we reported such balances on a gross basis with a same-party receivable and payable balance presented separately in our balance sheet. GAAP permits a reporting entity to elect a policy of offsetting same-party receivables and payables when such amounts are net settled under legally enforceable contractual setoff provisions. We believe that a net presentation is preferable because it more appropriately presents our economic resources (accounts receivable) and claims against us (accounts payable) and the future cash flows associated with such assets and liabilities. Additionally, we believe a net presentation of such amounts conforms to the predominant practices used by other companies in our industry. We have applied this change in accounting principle on a retrospective basis and have recast our prior period financial statements.

The following table summarizes the line items affected in our consolidated balance sheet at December 31, 2011:

	As Originally Reported (In thousands)	As Adjusted	Effect of Change
Accounts receivable: Crude oil resales	\$743,544	\$5,166	\$(738,378)
Total current assets	4,659,124	3,920,746	(738,378)
Total assets	\$10,314,621	\$9,576,243	\$(738,378)
Accounts payable	\$2,243,072	\$1,504,694	\$(738,378)
Total current liabilities	2,629,061	1,890,683	(738,378)
Total liabilities and equity	\$10,314,621	\$9,576,243	\$(738,378)

Edgar Filing: HollyFrontier Corp - Form 10-Q

The following table summarizes the line items affected in our consolidated statement of cash flow for the nine months ended September 30, 2011:

	As Originally Reported (In thousands)	As Adjusted	Effect of Change
(Increase) decrease in current assets:			
Accounts receivable	\$389,289	\$495,971	\$106,682
Increase (decrease) in current liabilities:			
Accounts payable	\$(297,080)	\$(403,762)	\$(106,682)

At September 30, 2012, our accounts payable balance is presented net of \$639.4 million in crude oil receivables subject to contractual setoff provisions. There was no cumulative impact to retained earnings since this change in accounting principle did not affect earnings.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 3: Holly-Frontier Merger

On February 21, 2011, we entered into a merger agreement providing for a “merger of equals” business combination between us and Frontier. The legacy Frontier business operations consist of crude oil refining and the wholesale marketing of refined petroleum products produced at the El Dorado and Cheyenne Refineries and serve markets in the Rocky Mountain and Plains States regions of the United States. On July 1, 2011, North Acquisition, Inc., a direct wholly-owned subsidiary of Holly, merged with and into Frontier, with Frontier surviving as a wholly-owned subsidiary of Holly. Subsequent to the merger and following approval by the post-closing board of directors of HollyFrontier, Frontier merged with and into HollyFrontier, with HollyFrontier continuing as the surviving corporation.

In accordance with the merger agreement, we issued approximately 102.8 million shares of HollyFrontier common stock in exchange for outstanding shares of Frontier common stock to former Frontier stockholders. Each outstanding share of Frontier common stock was converted into 0.4811 shares of HollyFrontier common stock with any fractional shares paid in cash. The aggregate consideration paid in connection with the merger was approximately \$3.7 billion. This is based on our July 1, 2011 market closing price of \$35.93 and includes a portion of the fair value of the outstanding equity-based awards assumed from Frontier that relates to pre-merger services.

Our consolidated financial and operating results reflect the operations of the merged Frontier businesses beginning July 1, 2011. Assuming the merger had been consummated on January 1, 2011, pro forma revenues, net income and basic and diluted earnings per share are as follows:

	Nine Months Ended September 30, 2011 (In thousands, except per share amounts)
Sales and other revenues	\$ 14,446,297
Net income attributable to HollyFrontier stockholders	\$ 1,118,018
Basic earnings per share	\$ 5.34
Diluted earnings per share	\$ 5.31

Adjustments made to derive pro forma net income primarily relate to depreciation and amortization expense to reflect our new basis in the legacy Frontier refining facilities.

NOTE 4: Holly Energy Partners

HEP, a consolidated VIE, is a publicly held master limited partnership that was formed to acquire, own and operate the petroleum product and crude oil pipeline and terminal, tankage and loading rack facilities that support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. HEP also owns and operates refined product pipelines and terminals, located primarily in Texas, that serve Alon's refinery in Big Spring, Texas.

As of September 30, 2012, we owned a 44% interest in HEP, including the 2% general partner interest. We are the primary beneficiary of HEP's earnings and cash flows and therefore we consolidate HEP. See Note 19 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated

Edgar Filing: HollyFrontier Corp - Form 10-Q

financial statements. All intercompany transactions with HEP are eliminated in our consolidated financial statements.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 83% of HEP's total revenues for the nine months ended September 30, 2012. We do not provide financial or equity support through any liquidity arrangements and /or debt guarantees to HEP.

12

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

HEP has outstanding debt under a senior secured revolving credit agreement and its senior notes. With the exception of the assets of HEP Logistics Holdings, L.P., one of our wholly-owned subsidiaries and HEP's general partner, HEP's creditors have no recourse to our assets. Any recourse to HEP's 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. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries. See Note 12 for a description of HEP's debt obligations.

At September 30, 2012, we have an agreement to pledge up to 6,000,000 of our HEP common units to collateralize certain crude oil purchases. These units represent a 21% ownership interest in HEP.

HEP has risk associated with its operations. If a major customer of HEP were to terminate its contracts or fail to meet desired shipping or throughput levels for an extended period of time, revenue would be reduced and HEP could suffer substantial losses to the extent that a new customer is not found. In the event that HEP incurs a loss, our operating results will reflect HEP's loss, net of intercompany eliminations, to the extent of our ownership interest in HEP at that point in time.

UNEV Interest Transaction

On July 12, 2012, we sold our 75% interest in UNEV to HEP. We received consideration totaling approximately \$315.0 million, which consisted of approximately \$260.0 million in cash and 1 million HEP common units. As a result of this transaction, our ownership interest in HEP increased to 44%, which includes the 2% general partner interest. We have a 10-year transportation agreement with the UNEV Pipeline expiring in 2022 that results in minimum annualized payments to UNEV of \$16.9 million.

We accounted for this transaction as a business transfer between entities under common control, whereby we have retrospectively adjusted HEP financial information for all prior periods presented as if UNEV was a consolidated subsidiary of HEP since inception. This had no impact on our consolidated balances and amounts; however, it did affect certain amounts presented under the HEP segment in Note 18, "Segment Information" and Note 19, "Supplemental Guarantor/Non-Guarantor Financial Information."

Transportation Agreements

HEP serves our refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 through 2026. Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP. Under these agreements, the agreed upon tariff rates are subject to annual tariff rate adjustments on July 1 at a rate based upon the percentage change in Producer Price Index ("PPI") or Federal Energy Regulatory Commission ("FERC") index. As of July 1, 2012, these agreements result in minimum annualized payments to HEP of \$200.3 million.

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

HEP Common Unit Issuances

As a result of the common units received in connection with HEP's acquisition of our 75% interest in UNEV, we adjusted additional capital and equity attributable to HEP's noncontrolling interest holders to effectively reallocate a

portion of HEP's equity among its unitholders.

NOTE 5: Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. HEP's outstanding credit agreement borrowings approximate fair value as interest rates are reset frequently at current interest rates.

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, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

(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.

The carrying amounts and related estimated fair values of our investments in marketable securities, derivative instruments and the senior notes at September 30, 2012 and December 31, 2011 were as follows:

Financial Instrument	Carrying Amount (In thousands)	Fair Value by Input Level			Level 3		
		Fair Value	Level 1	Level 2			
September 30, 2012							
Assets:							
Marketable debt securities	\$285,928	\$285,928	\$—	\$285,928	\$—		
NYMEX futures contracts	4,126	4,126	4,126	—	—		
Total assets	\$290,054	\$290,054	\$4,126	\$285,928	\$—		
Liabilities:							
Commodity price swaps	\$57,457	\$57,457	\$—	\$29,409	\$28,048		
HollyFrontier senior notes	435,139	475,977	—	475,977	—		
HEP senior notes	443,434	473,625	—	473,625	—		
HEP interest rate swaps	3,764	3,764	—	3,764	—		
Total liabilities	\$939,794	\$1,010,823	\$—	\$982,775	\$28,048		
December 31, 2011							
Assets:							
Equity securities	\$753	\$753	\$753	\$—	\$—		
Marketable debt securities	260,953	260,953	—	260,953	—		
Commodity price swaps	175,654	175,654	—	144,038	31,616		
Total assets	\$437,360	\$437,360	\$753	\$404,991	\$31,616		
Liabilities:							
NYMEX futures contracts	\$1,252	\$1,252	\$1,252	\$—	\$—		
HollyFrontier senior notes	651,262	693,979	—	693,979	—		
HEP senior notes	325,860	344,350	—	344,350	—		
HEP interest rate swaps	520	520	—	520	—		
Total liabilities	\$978,894	\$1,040,101	\$1,252	\$1,038,849	\$—		

Level 1 Financial Instruments

Our investments in equity securities and our NYMEX futures contracts are exchange traded and are measured and recorded at fair value using quoted market prices, a Level 1 input.

Level 2 Financial Instruments

Investments in marketable debt securities and derivative instruments consisting of commodity price swaps and HEP's interest rate swaps are measured and recorded at fair value using Level 2 inputs. With respect to the commodity price and interest rate swap contracts, fair value is based on the net present value of expected future cash flows related to both variable and fixed rate legs of the respective swap agreements. The measurements are computed using market-based observable inputs, quoted forward commodity prices with respect to our commodity price swaps and the

Edgar Filing: HollyFrontier Corp - Form 10-Q

forward London Interbank Offered Rate (“LIBOR”) yield curve with respect to HEP's interest rate swaps. The fair value of the marketable debt securities and senior notes is based on values provided by a third-party bank, which were derived using market quotes for similar type instruments, a Level 2 input.

14

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Level 3 Financial Instruments

We have entered into certain commodity price swap contracts related to forecasted sales of diesel and unleaded gasoline for which quoted forward market prices are not readily available. The forward rate used to value these price swaps was derived using a projected forward rate using quoted market rates for similar products, adjusted for regional pricing differentials, a Level 3 input.

The following table presents the changes in fair value of the Level 3 assets and liabilities (all related to commodity price swap contracts) for the three and nine months ended September 30, 2012:

Level 3 Financial Instruments	Three Months Ended September 30, 2012 (In thousands)	Nine Months Ended September 30, 2012
Asset balance at beginning of period	\$119,461	\$31,616
Change in fair value	(192,446)	) (158,893)
Settlement date fair value of contracts open at beginning of period	44,937	99,229
Liability balance at end of period	\$(28,048)	) \$(28,048)

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 commodity price swaps would result in an estimated fair value change of approximately \$4.0 million.

NOTE 6: Earnings Per Share

Basic earnings per share is calculated as net income attributable to HollyFrontier 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 variable restricted and variable performance shares. The following is a reconciliation of the denominators of the basic and diluted per share computations for net income attributable to HollyFrontier stockholders:

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	(In thousands, except per share data)			
Earnings attributable to HollyFrontier stockholders	\$600,373	\$523,088	\$1,335,568	\$800,017
Average number of shares of common stock outstanding	203,557	209,583	206,657	141,353
Effect of dilutive variable restricted shares and performance share units ⁽¹⁾	877	996	889	739
Average number of shares of common stock outstanding assuming dilution	204,434	210,579	207,546	142,092
Basic earnings per share	\$2.95	\$2.50	\$6.46	\$5.66
Diluted earnings per share	\$2.94	\$2.48	\$6.44	\$5.63
(1) Excludes anti-dilutive restricted and performance share units of:	—	39	3	179

NOTE 7: Stock-Based Compensation

As of September 30, 2012, we have two principal share-based compensation plans including the Frontier plan that was retained upon the July 1, 2011 merger (collectively, the “Long-Term Incentive Compensation Plan”).

The compensation cost charged against income for these plans was \$7.3 million and \$9.4 million for the three months ended September 30, 2012 and 2011, respectively, and \$23.2 million and \$13.9 million for the nine months ended September 30, 2012 and 2011, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs ratably over the vesting periods.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Additionally, HEP maintains a share-based compensation plan for HEP directors and select Holly Logistic Services, L.L.C. executives and employees. Compensation cost attributable to HEP's share-based compensation plan was \$0.5 million and \$0.6 million for the three months ended September 30, 2012 and 2011, respectively, and \$2.1 million and \$1.6 million for the nine months ended September 30, 2012 and 2011, respectively.

Restricted Stock

Under our Long-Term Incentive Compensation Plan, we grant certain officers, other key employees and non-employee directors restricted stock awards with most awards vesting over a period of one to three 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 performance targets being realized. The fair value of each share of restricted stock awarded, including the shares issued to the key executives, is measured based on the market price as of the date of grant and is amortized over the respective vesting period.

A summary of restricted stock activity and changes during the nine months ended September 30, 2012 is presented below:

Restricted Stock	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2012 (non-vested)	1,122,350	\$25.48	
Granted	420,922	33.97	
Vesting and transfer of ownership to recipients	(574,408)	) 23.48	
Forfeited	(3,975)	) 33.06	
Outstanding at September 30, 2012 (non-vested)	964,889	\$30.35	\$39,821

For the nine months ended September 30, 2012, we issued 574,408 shares of our common stock upon the vesting of restricted stock grants having a grant date fair value of \$13.5 million. As of September 30, 2012, there was \$12.3 million of total unrecognized compensation cost related to non-vested restricted stock grants. That cost is expected to be recognized over a weighted-average period of 1.1 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 three years. Under the terms of our performance share unit grants, awards are subject to either a "financial performance" or "market performance" criteria, or both.

The fair value of performance share unit awards subject to financial performance criteria 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, 2012, estimated share payouts for outstanding non-vested performance share unit awards ranged from 107% to 175%.

For the performance share units subject to market performance criteria, performance is calculated as the total shareholder return achieved by HollyFrontier stockholders compared with the average shareholder return achieved by

Edgar Filing: HollyFrontier Corp - Form 10-Q

an equally-weighted peer group of independent refining companies over a three-year period. These share unit awards are valued using a Monte Carlo valuation model, which simulates future stock price movements using key inputs including grant date stock prices, expected stock price performance, expected rate of return and volatility. These units are payable in stock based on share price performance relative to the defined peer group and can range from zero to 200% of the initial target award.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

A summary of performance share unit activity and changes during the nine months ended September 30, 2012 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2012 (non-vested)	774,788
Granted	298,559
Vesting and transfer of ownership to recipients	(240,019)
Forfeited	(5,057)
Outstanding at September 30, 2012 (non-vested)	828,271

For the nine months ended September 30, 2012, we issued 459,426 shares of our common stock, representing a 191% payout on vested performance share units having a grant date fair value of \$2.8 million. Based on the weighted-average grant date fair value of \$28.20 per share, there was \$15.1 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 1.4 years.

NOTE 8: Cash and Cash Equivalents and Investments in Marketable Securities

Our investment portfolio at September 30, 2012 consisted of cash, cash equivalents and investments in debt securities primarily issued by government and municipal entities.

We invest in highly-rated marketable debt securities, primarily issued by government and municipal entities that have maturities at the date of purchase of greater than three months. We also invest in other marketable debt securities with the maximum maturity or put date of any individual issue generally not greater than two years from the date of purchase, which are usually held until maturity. All of these instruments are classified as available-for-sale. As a result, they 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 reported as a component of accumulated other comprehensive income. 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:

	Amortized Cost (In thousands)	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
September 30, 2012				
Marketable debt securities (state and political subdivisions)	\$285,915	\$26	\$(13)	\$285,928
December 31, 2011				
Marketable debt securities (state and political subdivisions)	\$260,879	\$74	\$—	\$260,953
Equity securities	610	143	—	753

Edgar Filing: HollyFrontier Corp - Form 10-Q

Total marketable securities	\$261,489	\$217	\$—	\$261,706
-----------------------------	-----------	-------	-----	-----------

For the nine months ended September 30, 2012, we invested \$236.3 million in marketable debt securities and received a total of \$212.2 million from sales and maturities of equity and marketable debt securities.

Table of Contents

HOLLYFRONTIER CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited) Continued

NOTE 9: Inventories

Inventory consists of the following components:

	September 30, 2012 (In thousands)	December 31, 2011
Crude oil	\$526,783	\$400,952
Other raw materials and unfinished products ⁽¹⁾	126,406	137,356
Finished products ⁽²⁾	752,958	513,776
Process chemicals ⁽³⁾	2,663	1,180
Repairs and maintenance supplies and other	76,640	61,355
Total inventory	\$1,485,450	\$1,114,619

(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 additives and other chemicals.

NOTE 10: Goodwill

The following table provides a summary of changes to our goodwill balance by segment for the nine months ended September 30, 2012.

	Refining Segment (In thousands)	HEP	Total
Balance at January 1, 2012	\$2,047,519	\$288,991	\$2,336,510
Adjustment to goodwill related to Frontier merger	1,792	—	1,792
Balance at September 30, 2012	\$2,049,311	\$288,991	\$2,338,302

During the first quarter of 2012, we adjusted goodwill upon finalizing certain fair value estimates that primarily relate to income tax receivables, properties, plants and equipment and environmental liabilities that were recognized upon our July 1, 2011 merger with Frontier.

NOTE 11: Environmental

We expensed \$1.7 million and \$0.7 million for the three months ended September 30, 2012 and 2011, respectively, and \$16.9 million and \$0.6 million for the nine months ended September 30, 2012 and 2011, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was \$61.8 million and \$42.2 million at September 30, 2012 and December 31, 2011, respectively, of which \$48.6 million and \$31.7 million, respectively, were classified as other long-term liabilities. These accruals include remediation costs expected to be incurred over an extended period of time. They also include \$15.6 million in environmental liabilities that were assumed upon our merger with Frontier.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 12: Debt

HollyFrontier Credit Agreement

We have a \$1 billion senior secured credit agreement (the “HollyFrontier Credit Agreement”) with Union Bank, N.A. as administrative agent and certain lenders from time to time party thereto. The HollyFrontier Credit Agreement matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries.

At September 30, 2012, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$29.2 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement

In June 2012, HEP amended its previous credit agreement, increasing the size of the credit facility from \$375 million to \$550 million. HEP's \$550 million senior secured revolving credit facility matures in June 2017 (the “HEP Credit Agreement”) and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit and to fund distributions to unitholders up to a \$60 million sub-limit. At September 30, 2012, the HEP Credit Agreement had outstanding borrowings of \$431.0 million.

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets (presented parenthetically in our consolidated balance sheets). Indebtedness under the HEP Credit Agreement involves recourse to HEP Logistics Holdings, L.P., its general partner, and is 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. HEP's creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Senior Notes

Our senior notes consist of the following:

9.875% senior notes (\$286.8 million principal amount maturing June 2017)

6.875% senior notes (\$150 million principal amount maturing November 2018)

These senior notes (collectively, the “HollyFrontier Senior Notes”) are unsecured and impose certain restrictive covenants, including limitations on our 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 HollyFrontier 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 HollyFrontier Senior Notes.

In September 2012, we redeemed our \$200 million aggregate principal amount of 8.5% senior notes maturing September 2016 at a \$208.5 million redemption price. At that time, we recognized an unamortized debt premium which was netted against the \$8.5 million redemption premium, resulting in a net reduction of \$2.4 million to interest expense upon redemption.

HollyFrontier Financing Obligation

We have a financing obligation that relates to a sale and lease-back of certain crude oil tankage that we sold to an affiliate of Plains All American Pipeline, L.P. (“Plains”) in October 2009. Under this transaction, the \$40.0 million in cash proceeds received was recorded as a liability. Monthly lease payments are recorded as a reduction in principal over the 15-year lease term ending in 2024.

HEP Senior Notes

HEP’s senior notes consist of the following:

8.25% HEP senior notes (\$150 million principal amount maturing March 2018)

6.5% HEP senior notes (\$300 million principal amount maturing March 2020)

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

In March 2012, HEP issued \$300 million in an aggregate principal amount of 6.5% HEP senior notes maturing March 2020. The \$294.8 million in net proceeds were used to repay \$157.8 million aggregate principal amount of 6.25% HEP senior notes, \$72.9 million in promissory notes due to HollyFrontier, related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the HEP Credit Agreement. In April 2012, HEP called for redemption the \$27.3 million aggregate principal amount outstanding of 6.25% HEP senior notes.

The 8.25% and 6.5% HEP senior notes (collectively, 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 involves recourse to HEP Logistics Holdings, L.P., its general partner, and is guaranteed by HEP’s wholly-owned subsidiaries. However, 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. HEP’s creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

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

	September 30, 2012 (In thousands)	December 31, 2011)
9.875% Senior Notes		
Principal	\$286,812	\$291,812
Unamortized discount	(7,788)	(8,930)
	279,024	282,882
6.875% Senior Notes		
Principal	150,000	150,000
Unamortized premium	6,115	6,490
	156,115	156,490
8.5% Senior Notes		
Principal	—	199,985
Unamortized premium	—	11,905
	—	211,890
Financing Obligation	36,654	37,620
Total HollyFrontier long-term debt	471,793	688,882
HEP Credit Agreement	431,000	200,000
HEP 8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(1,678)	(1,907)
	148,322	148,093

Edgar Filing: HollyFrontier Corp - Form 10-Q

HEP 6.5% Senior Notes		
Principal	300,000	—
Unamortized discount	(4,888) —
	295,112	—
HEP 6.25% Senior Notes		
Principal	—	185,000
Unamortized discount	—	(8,331)
Unamortized premium – designated fair value hedge	—	1,098
	—	177,767
Total HEP long-term debt	874,434	525,860
Total long-term debt	\$1,346,227	\$1,214,742

We capitalized interest attributable to construction projects of \$2.5 million and \$5.8 million for the three months ended September 30, 2012 and 2011, respectively, and \$6.3 million and \$13.6 million for the nine months ended September 30, 2012 and 2011, respectively.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 13: Derivative Instruments and Hedging Activities

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps and futures contracts to mitigate price exposure with respect to:

- our inventory positions;
- natural gas purchases;
- costs of crude oil and related grade differentials;
- prices of refined products; and
- our refining margins.

Accounting Hedges

We have swap contracts serving as cash flow hedges against price risk on forecasted purchases of WTI crude oil and forecasted sales of ultra-low sulfur diesel and conventional unleaded gasoline. These contracts have been designated as accounting hedges and are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to other comprehensive income. These fair value adjustments are later reclassified to earnings as the hedging instruments mature. Also on a quarterly basis, hedge ineffectiveness is measured by comparing the change in fair value of the swap contracts against the expected future cash inflows/outflows on the respective transaction being hedged. Any hedge ineffectiveness is also recognized in earnings.

The following table presents the pre-tax effect on other comprehensive income (“OCI”) and earnings due to fair value adjustments and maturities of commodity price swaps under hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Gain (Loss) Recognized in Earnings Due to Settlements	Location	Amount (In thousands)	Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	Location	Amount
Three Months Ended September 30,							
2012							
Commodity price swaps							
Change in fair value	\$ (144,635)	) Sales and other revenues	\$ (44,936)	) Sales and other revenues	\$ (3,531))	
Loss reclassified to earnings due to settlements	33,409	Cost of products sold	11,527	Cost of products sold	6,208		
Total	\$ (111,226)	)	\$ (33,409)	)			\$ 2,677

Three Months Ended September 30,

2011

Commodity price swaps

Change in fair value	\$ 22,181	\$ —	\$ 362
----------------------	-----------	------	--------

Edgar Filing: HollyFrontier Corp - Form 10-Q

	Cost of products sold		Cost of products sold
Nine Months Ended September 30,			
2012			
Commodity price swaps			
Change in fair value	\$(257,711	) Sales and other revenues	\$99,228
Loss reclassified to earnings due to settlements	20,986	Cost of products sold	78,242
Total	\$(236,725	)	\$(20,986
		)	\$1,876)
			Cost of products sold (109)
			\$1,985)
Nine Months Ended September 30,			
2011			
Commodity price swaps			
Change in fair value	\$22,053		
Loss reclassified to earnings due to settlements	166	Operating expenses	\$(166
Total	\$22,219	)	\$362
			\$362)

21

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

As of September 30, 2012, we have the following notional contract volumes (stated in barrels) related to outstanding swap contracts serving as cash flow hedges against price risk on forecasted purchases of crude oil and sales of refined products:

	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity	
		2012	2013
Commodity Price Swaps			
WTI crude oil - long	13,351,000	5,336,000	8,015,000
Ultra-low sulfur diesel - short	10,143,000	2,668,000	7,475,000
Conventional unleaded gasoline - short	3,208,000	2,668,000	540,000

Economic Hedges

We also have swap contracts that serve as economic hedges to fix our purchase price on forecasted crude oil, natural gas and butane purchases, and to lock in the spread between WCS and WTI crude oil on forecasted purchases. Also, we have NYMEX futures contracts to lock in prices on forecasted sales and purchases of inventory. These contracts are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to income.

The following table presents the pre-tax effect on income due to maturities and fair value adjustments of our economic hedges:

Location of Gain Recognized in Income	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012 (In thousands)	2011	2012	2011
Cost of products sold	\$19,869	\$10,034	\$55,738	\$9,382
Operating expenses	604	—	446	—
Total	\$20,473	\$10,034	\$56,184	\$9,382

As of September 30, 2012, we have the following notional contract volumes related to our outstanding swap contracts serving as economic hedges:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity		Unit of Measure
		2012	2013	
Commodity price swap (natural gas) - long	3,312,000	3,312,000	—	MMBTU
Commodity price swap (WCS spread) - long	6,117,500	460,000	5,657,500	Barrels
Commodity price swap (WTI) - short	150,000	—	150,000	Barrels
Commodity price swap (gasoline) - short	630,000	150,000	480,000	Barrels
NYMEX futures (WTI) - long	234,000	—	234,000	Barrels
NYMEX futures (WTI)- short	2,206,000	1,856,000	350,000	Barrels

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Interest Rate Risk Management

HEP uses interest rate swaps to manage its exposure to interest rate risk.

As of September 30, 2012, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on \$305.0 million in credit agreement advances. The first interest rate swap effectively converts \$155.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of September 30, 2012, which equaled an effective interest rate of 2.99%. This swap matures in February 2016. In August 2012, HEP entered into two similar interest rate swaps with identical terms which convert \$150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of September 30, 2012, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017. All of these swap contracts have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

At September 30, 2012, HEP had a pre-tax unrealized loss recorded in accumulated other comprehensive income of \$5.9 million that relates to its current and previous cash flow hedging instruments. Of this amount, \$2.1 million relates to a cash flow hedge terminated in December 2011 and represents the application of hedge accounting prior to termination. This amount will be amortized as a charge to interest expense through February 2013, the remaining term of the terminated swap contract.

The following table presents the pre-tax effect on other comprehensive income and earnings due to fair value adjustments and maturities of HEP's interest rate swaps under cash flow hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Loss Recognized in Earnings Due to Settlements	Location	Amount (In thousands)
Three Months Ended September 30, 2012				
Interest rate swaps				
Change in fair value	\$ (1,802)			
Loss reclassified to earnings due to settlements	1,695		Interest expense	\$ (1,695)
Total	\$ (107)			\$ (1,695)
Three Months Ended September 30, 2011				
Interest rate swaps				
Change in fair value	\$ (310)			
Loss reclassified to earnings due to settlements	1,403		Interest expense	\$ (1,403)
Total	\$ 1,093			\$ (1,403)
Nine Months Ended September 30, 2012				
Interest rate swaps				
Change in fair value	\$ (4,240)			
Loss reclassified to earnings due to settlements	4,818		Interest expense	\$ (4,818)
Total	\$ 578			\$ (4,818)
Nine Months Ended September 30, 2011				

Edgar Filing: HollyFrontier Corp - Form 10-Q

Interest rate swaps				
Change in fair value	\$1,485)		
Loss reclassified to earnings due to settlements	4,132		Interest expense	\$4,132)
Total	\$2,647			\$4,132)

23

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

The following table presents balance sheet locations and related fair values of outstanding derivative instruments. These amounts are presented on a gross basis in accordance with GAAP disclosure requirements and do not reflect the netting of asset or liability positions permitted under the terms of master netting arrangements. Therefore, they are not equal to amounts presented in our consolidated balance sheets.

	Asset Derivatives		Liability Derivatives	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Location		Location	
	(In thousands)			
September 30, 2012				
Derivatives designated as cash flow hedging instruments:				
Commodity price swap contracts	Accrued liabilities	\$22,018	Accrued liabilities	\$86,945
Variable-to-fixed interest rate swap contracts			Other long-term liabilities	3,764
Total		\$22,018		\$90,709
Derivatives not designated as hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	\$4,126		
	Accrued liabilities	20,986	Accrued liabilities	\$13,516
Total		\$25,112		\$13,516
December 31, 2011				
Derivatives designated as cash flow hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	\$173,784		
Variable-to-fixed interest rate swap contracts			Other long-term liabilities	\$520
Total		\$173,784		\$520
Derivatives not designated as hedging instruments:				
Commodity price swap contracts	Prepayments and other current assets	\$1,870	Accrued liabilities	\$1,252

At September 30, 2012, we had a pre-tax net unrealized loss of \$68.7 million classified in accumulated other comprehensive income that relates to all accounting hedges. Assuming commodity prices and interest rates remain unchanged, an unrealized loss of approximately \$66.0 million will be effectively transferred from accumulated other comprehensive income into the statement of income as the hedging instruments mature over the next twelve-month period.

Table of Contents

HOLLYFRONTIER CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited) Continued

NOTE 14: Equity

Changes to equity during the nine months ended September 30, 2012 are presented below:

	HollyFrontier Stockholders' Equity (In thousands)	Noncontrolling Interest	Total Equity
Balance at December 31, 2011	\$5,204,010	\$631,890	\$5,835,900
Net income	1,335,568	24,472	1,360,040
Other comprehensive income (loss)	(140,394	) 529	(139,865)
Dividends	(494,107	) —	(494,107)
Distributions to noncontrolling interest holders	—	(43,749	) (43,749)
Allocated equity on HEP unit issuances	11,469	(18,763	) (7,294)
Contribution from joint venture partner	—	3,000	3,000
Equity-based compensation	23,166	2,233	25,399
Excess tax benefit attributable to equity-based compensation	16,020	—	16,020
Purchase of treasury stock ⁽¹⁾	(200,076	) —	(200,076)
Net proceeds received under structured share repurchase arrangement	8,620	—	8,620
Purchase of HEP units for restricted grants	—	(4,392	) (4,392)
Balance at September 30, 2012	\$5,764,276	\$595,220	\$6,359,496

⁽¹⁾ Includes 329,631 shares withheld under the terms of stock-based compensation agreements to provide funds for the payment of payroll and income taxes due at the vesting of share-based awards.

In January 2012, our Board of Directors approved a \$350 million stock repurchase program, and in June 2012, approved an additional \$350 million repurchase program that authorizes us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions, corporate, regulatory and other relevant considerations. These programs may be discontinued at any time by the Board of Directors. As of September 30, 2012, we have repurchased 6,351,498 shares at a cost of \$189.8 million under these stock repurchase programs.

In May 2012, we entered into a structured share repurchase arrangement with a financial institution under which we provided an up-front cash payment of \$100.0 million and, depending on market conditions, would either receive shares of our common stock or cash at the expiration of the agreement. The agreement expired in September 2012 at which time we received our up-front payment plus an additional \$8.6 million in cash that was recorded as additional capital.

Table of Contents

HOLLYFRONTIER CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited) Continued

NOTE 15: Other Comprehensive Income (Loss)

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

	Before-Tax (In thousands)	Tax Expense (Benefit)	After-Tax
Three Months Ended September 30, 2012			
Unrealized gain, net of reclassifications from sale or maturity, on available-for-sale securities	\$13	\$6	\$7
Unrealized loss on hedging activities	(111,333	) (43,359	) (67,974
Other comprehensive loss	(111,320	) (43,353	) (67,967
Less other comprehensive income attributable to noncontrolling interest	129	—	129
Other comprehensive loss attributable to HollyFrontier stockholders	\$(111,449	) \$(43,353	) \$(68,096
Three Months Ended September 30, 2011			
Unrealized loss on available-for-sale securities	\$(655	) \$(252	) \$(403
Unrealized gain on hedging activities	23,272	8,772	14,500
Retirement medical obligation adjustment	9	—	9
Other comprehensive income	22,626	8,520	14,106
Less other comprehensive income attributable to noncontrolling interest	717	—	717
Other comprehensive income attributable to HollyFrontier stockholders	\$21,909	\$8,520	\$13,389
Nine Months Ended September 30, 2012			
Unrealized loss, net of reclassifications from sale or maturity, on available-for-sale securities	\$(203	) \$(78	) \$(125
Unrealized loss on hedging activities	(236,147	) (92,068	) (144,079
Pension plan curtailment	7,102	2,763	4,339
Other comprehensive loss	(229,248	) (89,383	) (139,865
Less other comprehensive income attributable to noncontrolling interest	529	—	529
Other comprehensive loss attributable to HollyFrontier stockholders	\$(229,777	) \$(89,383	) \$(140,394
Nine Months Ended September 30, 2011			
Unrealized loss on available-for-sale securities	\$(972	) \$(376	) \$(596
Unrealized gain on hedging activities	24,864	8,994	15,870
Retirement medical obligation adjustment	9	—	9
Other comprehensive income	23,901	8,618	15,283
Less other comprehensive income attributable to noncontrolling interest	1,737	—	1,737
Other comprehensive income attributable to HollyFrontier stockholders	\$22,164	\$8,618	\$13,546

Edgar Filing: HollyFrontier Corp - Form 10-Q

The temporary unrealized gain (loss) on available-for-sale securities is due to changes in market prices of securities.

Accumulated other comprehensive income (loss) in the equity section of our consolidated balance sheets includes:

	September 30, 2012	December 31, 2011
	(In thousands)	
Pension obligation adjustment	\$(18,376)	) \$(22,715)
Retiree medical obligation adjustment	(4,042)	) (4,042)
Unrealized gain on available-for-sale securities	9	134
Unrealized gain (loss) on hedging activities, net of noncontrolling interest	(40,112)	) 104,496
Accumulated other comprehensive income (loss)	\$(62,521)	) \$77,873

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 16: Retirement Plan

We sponsor a non-contributory defined benefit retirement plan that covers most legacy Holly non-union employees hired prior to January 1, 2007 and union employees hired prior to July 1, 2010, and was closed to new entrants effective January 1, 2007 for non-union employees and July 1, 2010 for union employees. Effective January 1, 2012, no additional benefits will be accrued under this plan for non-union employee participants and effective May 1, 2012, no additional benefits will be accrued for union employee participants, at which time the plan was fully frozen. The changes for union employee participants have been accounted for as a curtailment. Accordingly, we adjusted the projected benefit obligation and accumulated other comprehensive income by \$7.1 million and recorded additional pension expense of \$0.7 million in the second quarter of 2012. The changes related to the non-union employees were also accounted for as a curtailment, which was recorded in the fourth quarter of 2011. Our funding policy for this defined benefit retirement plan is to make annual contributions 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.

The net periodic pension expense consisted of the following components:

	Three Months Ended September 30, 2012 (In thousands)	Nine Months Ended September 30, 2012 (In thousands)	Nine Months Ended September 30, 2011 (In thousands)
Service cost – benefit earned during the period	\$—	\$679	\$3,803
Interest cost on projected benefit obligations	955	3,007	3,844
Expected return on plan assets	(950)	(2,849)	(3,923)
Amortization of prior service cost	—	67	293
Amortization of net loss	415	1,518	1,594
Estimated effect of curtailment	—	899	798
Net periodic pension expense	\$420	\$3,321	\$6,409

The expected long-term annual rate of return on plan assets is 6.5%, which is the rate is used in measuring 2012 net periodic benefit costs. We contributed \$22.4 million to the retirement plan in June 2012.

In 2012, we established a program for plan participants whose benefits pursuant to the defined benefit plan were frozen. The program provides for payments after year-end for each of the next three years provided the employee remains with the us. The payments are based on each employee's years of service and eligible salary. For the three and nine months ended September 30, 2012, we recognized transition benefit costs of \$3.2 million and \$10.1 million, respectively, associated with transition to the new defined contribution plan.

We have a post-retirement healthcare and other benefits plan that is available to certain of our employees who satisfy certain age and service requirements. The net periodic benefit expense of this plan consisted of the following components:

	Three Months Ended September 30, 2012 (In thousands)	Nine Months Ended September 30, 2012 (In thousands)
Service cost – benefit earned during the period	\$475	\$1,425
Interest cost on projected benefit obligations	875	2,625

Edgar Filing: HollyFrontier Corp - Form 10-Q

Amortization of prior service credit	(550)	(1,650))
Amortization of net loss	75	225	
Net periodic pension expense	\$875	\$2,625	

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 17: Contingencies

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

NOTE 18: Segment Information

Our operations are 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 represents the operations of the El Dorado, Tulsa, Navajo, Cheyenne and Woods Cross Refineries and NK Asphalt. Refining activities involve the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel and jet fuel. These petroleum products are primarily marketed in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refineries that are marketed throughout North America and are distributed in Central and South America. NK Asphalt operates various asphalt terminals in Arizona and New Mexico.

The HEP segment includes all of the operations of HEP, a consolidated VIE, which owns and operates logistics assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines, by leasing certain pipeline capacity, 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 75% interest in UNEV (a consolidated subsidiary of HEP) and a 25% interest in the SLC Pipeline. 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. 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, 2011.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

	Refining ⁽¹⁾	HEP ⁽²⁾	Corporate and Other	Consolidations and Eliminations	Consolidated Total
(In thousands)					
Three Months Ended September 30, 2012					
Sales and other revenues	\$5,192,649	\$72,496	\$352	\$(-6,699)	) \$5,204,798
Depreciation and amortization	\$47,890	\$12,636	\$4,793	\$(-207)	) \$65,112
Income (loss) from operations	\$973,586	\$37,137	\$(31,871)	) \$(548)	) \$978,304
Capital expenditures	\$70,069	\$5,683	\$3,765	\$—	\$79,517
Three Months Ended September 30, 2011					
Sales and other revenues	\$5,164,853	\$49,131	\$299	\$(-40,885)	) \$5,173,398
Depreciation and amortization	\$35,070	\$7,505	\$872	\$(-207)	) \$43,240
Income (loss) from operations	\$884,997	\$24,587	\$(40,135)	) \$(242)	) \$869,207
Capital expenditures	\$46,294	\$68,101	\$3,523	\$—	\$117,918
Nine Months Ended September 30, 2012					
Sales and other revenues	\$14,907,849	\$207,250	\$912	\$(-172,794)	) \$14,943,217
Depreciation and amortization	\$133,087	\$38,683	\$7,013	\$(-621)	) \$178,162
Income (loss) from operations	\$2,201,648	\$100,843	\$(89,899)	) \$(1,587)	) \$2,211,005
Capital expenditures	\$171,865	\$29,302	\$6,370	\$—	\$207,537
Nine Months Ended September 30, 2011					
Sales and other revenues	\$10,432,720	\$144,916	\$1,100	\$(-111,620)	) \$10,467,116
Depreciation and amortization	\$81,875	\$22,407	\$2,719	\$(-621)	) \$106,380
Income (loss) from operations	\$1,357,739	\$75,700	\$(73,689)	) \$(1,265)	) \$1,358,485
Capital expenditures	\$92,078	\$175,795	\$6,350	\$—	\$274,223
September 30, 2012					
Cash, cash equivalents and investments in marketable securities	\$557	\$1,993	\$2,340,786	\$—	\$2,343,336
Total assets	\$6,567,224	\$1,409,151	\$2,426,067	\$(-56,506)	) \$10,345,936
Long-term debt	\$—	\$874,434	\$487,843	\$(-16,050)	) \$1,346,227
December 31, 2011					
Cash, cash equivalents and investments in marketable securities	\$—	\$6,369	\$1,834,241	\$—	\$1,840,610
Total assets	\$6,280,426	\$1,418,660	\$1,997,601	\$(-120,444)	) \$9,576,243
Long-term debt	\$—	\$598,761	\$705,331	\$(-89,350)	) \$1,214,742

(1) The Refining segment reflects the operations of the El Dorado and Cheyenne Refineries beginning July 1, 2011 (date of Holly-Frontier merger).

(2) HEP acquired our 75% interest in UNEV in July 2012. As a result, we have recast our HEP segment information to include the UNEV Pipeline operations as a consolidated subsidiary of HEP for all periods presented. For the three and nine months ended September 30, 2012, UNEV Pipeline revenues were \$3.0 million and \$10.8 million, respectively. The UNEV Pipeline was previously presented under Corporate and Other.

Edgar Filing: HollyFrontier Corp - Form 10-Q

HEP segment revenues from external customers were \$11.9 million and \$8.3 million for the three months ended September 30, 2012 and 2011, respectively, and \$34.6 million and \$33.0 million for the nine months ended September 30, 2012 and 2011, respectively.

29

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

NOTE 19: Supplemental Guarantor/Non-Guarantor Financial Information

Our obligations under the HollyFrontier 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 44% ownership interest at September 30, 2012, 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 condensed consolidating financial information is provided for HollyFrontier 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.”

HEP acquired our 75% interest in UNEV in July 2012. As a result, we have recast our HEP segment information to include the UNEV Pipeline operations as a consolidated subsidiary of HEP for all periods presented. The UNEV Pipeline was previously presented as a Non-Guarantor Restricted Subsidiary.

Condensed Consolidating Balance Sheet

September 30, 2012	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier	Non-Guarantor	Consolidated					
					Corp. Before Consolidation (HEP of HEP Segment)	Non-Restricted Subsidiaries Elimination (HEP Segment)						
(In thousands)												
ASSETS												
Current assets:												
Cash and cash equivalents	\$2,053,324	\$2,089	\$2	\$—	\$2,055,415	\$1,993	\$—	\$2,057,408				
Marketable securities	280,401	8	—	—	280,409	—	—	280,409				
Accounts receivable, net	2,265	732,777	—	—	735,042	42,832	(41,000)	736,874				
Intercompany accounts receivable (payable)	1,175,041	(1,431,906)	256,865	—	—	—	—	—				
Inventories	—	1,484,217	—	—	1,484,217	1,233	—	1,485,450				
Income taxes receivable	40,544	—	4	—	40,548	—	—	40,548				
Prepayments and other	6,557	29,973	—	—	36,530	3,080	(8,378)	31,232				
	3,558,132	817,158	256,871	—	4,632,161	49,138	(49,378)	4,631,921				

Edgar Filing: HollyFrontier Corp - Form 10-Q

Total current assets								
Properties, plants and equip, net	22,483	2,108,183	—	—	2,130,666	994,926	(5,660)	3,119,932
Marketable securities (long-term)	5,519	—	—	—	5,519	—	—	5,519
Investment in subsidiaries	3,251,918	280,048	(181,421)	(3,350,545)	—	—	—	—
Intangibles and other assets	9,608	2,215,337	25,000	(25,000)	2,224,945	365,087	(1,468)	2,588,564
Total assets	\$6,847,660	\$5,420,726	\$100,450	\$ (3,375,545)	\$8,993,291	\$1,409,151	\$ (56,506)	\$10,345,936
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	\$135,714	\$1,424,692	\$4	\$—	\$1,560,410	\$11,303	\$ (40,999)	\$1,530,714
Income taxes payable	2,319	148,580	—	—	150,899	—	—	150,899
Accrued liabilities	87,232	120,858	954	—	209,044	19,315	(8,379)	219,980
Deferred income tax liabilities	191,958	(16,381)	(10)	—	175,567	—	—	175,567
Total current liabilities	417,223	1,677,749	948	—	2,095,920	30,618	(49,378)	2,077,160
Long-term debt	460,139	27,704	—	—	487,843	874,434	(16,050)	1,346,227
Deferred income tax liabilities	189,613	203,766	875	—	394,254	—	4,951	399,205
Other long-term liabilities	91,153	92,733	—	(25,000)	158,886	7,574	(2,612)	163,848
Investment in HEP	—	166,856	—	—	166,856	—	(166,856)	—
Equity – HollyFrontier	5,689,532	3,251,918	98,627	(3,350,545)	5,689,532	396,644	(321,900)	5,764,276
Equity – noncontrolling interest	—	—	—	—	—	99,881	495,339	595,220
Total liabilities and equity	\$6,847,660	\$5,420,726	\$100,450	\$ (3,375,545)	\$8,993,291	\$1,409,151	\$ (56,506)	\$10,345,936

Table of Contents

HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Uaudited) Continued

Condensed Consolidating Balance Sheet

December 31, 2011	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations Before Consolidation of HEP	HollyFrontier Corp.	Non-Restricted Subsidiaries	HEP Segment)	Non-Guarantor Subsidiaries	Eliminations of HEP	Consolidated
(In thousands)										
ASSETS										
Current assets:										
Cash and cash equivalents	\$1,575,891	\$(3,358)	\$2	\$—	\$1,572,535	\$6,369	\$—	\$—	\$—	\$1,578,904
Marketable securities	210,886	753	—	—	211,639	—	—	—	—	211,639
Accounts receivable, net	8,317	698,911	—	—	707,228	37,290	(35,661)	708,857	708,857	
Intercompany accounts receivable (payable)	3,075,563	(3,373,844)	298,281	—	—	—	—	—	—	—
Inventories	—	1,113,136	—	—	1,113,136	1,483	—	—	—	1,114,619
Income taxes receivable	87,273	4	—	—	87,277	—	—	—	—	87,277
Prepayments and other	19,379	202,428	4	—	221,811	2,246	(4,607)	219,450	219,450	
Total current assets	4,977,309	(1,361,970)	298,287	—	3,913,626	47,388	(40,268)	3,920,746	3,920,746	
Properties, plants and equip, net	26,702	2,026,105	—	—	2,052,807	1,006,379	(6,281)	3,052,905	3,052,905	
Marketable securities (long-term)	50,067	—	—	—	50,067	—	—	—	—	50,067
Investment in subsidiaries	846,359	295,902	(240,060)	(902,201)	—	—	—	—	—	—
Intangibles and other assets	19,329	2,242,197	—	—	2,261,526	364,893	(73,894)	2,552,525	2,552,525	
Total assets	\$5,919,766	\$3,202,234	\$58,227	\$(902,201)	\$8,278,026	\$1,418,660	\$(120,443)	\$9,576,243	\$9,576,243	
LIABILITIES AND EQUITY										
Current liabilities:										
Accounts payable	\$23,497	\$1,494,790	\$359	\$—	\$1,518,646	\$21,709	\$(35,661)	\$1,504,694	\$1,504,694	
	(109,320)	149,686	—	—	40,366	—	—	40,366	40,366	

Edgar Filing: HollyFrontier Corp - Form 10-Q

Income taxes payable								
Accrued liabilities	53,390	103,981	1,170	—	158,541	16,006	(4,607)	) 169,940
Deferred income tax liabilities	192,073	(16,390)	) —	—	175,683	—	—	175,683
Total current liabilities	159,640	1,732,067	1,529	—	1,893,236	37,715	(40,268)	) 1,890,683
Long-term debt	651,261	54,070	—	—	705,331	598,761	(89,350)	) 1,214,742
Deferred income tax liabilities	162,021	295,893	856	—	458,770	—	4,951	463,721
Other long-term liabilities	116,443	52,892	—	—	169,335	4,000	(2,138)	) 171,197
Investment in HEP	—	220,953	—	—	220,953	—	(220,953)) —
Equity – HollyFrontier	4,830,401	846,359	55,842	(902,201)	4,830,401	679,182	(305,573)	) 5,204,010
Equity – noncontrolling interest	—	—	—	—	—	99,002	532,888	631,890
Total liabilities and equity	\$5,919,766	\$3,202,234	\$58,227	\$ (902,201)	\$8,278,026	\$1,418,660	\$ (120,443)	\$9,576,243

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended September 30, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation(HEP of HEP	Non-Guarantor Non-Restricted Subsidiarie Elimination	Consolidated Segment)
(In thousands)							
Sales and other revenues	\$ 195	\$ 5,192,846	\$ 35	\$ —	\$ 5,193,076	\$ 72,496	\$ (60,774) \$ 5,204,798
Operating costs and expenses:							
Cost of products sold	—	3,958,261	—	—	3,958,261	—	(59,525) 3,898,736
Operating expenses	—	213,021	9	—	213,030	21,324	(495) 233,859
General and administrative	26,723	637	28	—	27,388	1,399	— 28,787
Depreciation and amortization	4,665	48,018	—	—	52,683	12,636	(207) 65,112
Total operating costs and expenses	31,388	4,219,937	37	—	4,251,362	35,359	(60,227) 4,226,494
Income (loss) from operations	(31,193)	972,909	(2)	—	941,714	37,137	(547) 978,304
Other income (expense):							
Earnings of equity method investments	988,255	15,720	15,586	(1,004,000)	15,561	877	(15,586) 852
Interest income (expense)	(6,747)	(374)	161	—	(6,960)	(12,432)	508 (18,884)
	981,508	15,346	15,747	(1,004,000)	8,601	(11,555)	(15,078) (18,032)
Income before income taxes	950,315	988,255	15,745	(1,004,000)	950,315	25,582	(15,625) 960,272
Income tax provision	349,485	—	—	—	349,485	137	— 349,622
Net income	600,830	988,255	15,745	(1,004,000)	600,830	25,445	(15,625) 610,650
Less net income attributable to noncontrolling interest	—	—	—	—	—	10,277	— 10,277
	\$ 600,830	\$ 988,255	\$ 15,745	\$ (1,004,000)	\$ 600,830	\$ 15,168	\$ (15,625) \$ 600,373

Edgar Filing: HollyFrontier Corp - Form 10-Q

Net income attributable to HollyFrontier stockholders Comprehensive income attributable to HollyFrontier stockholders	\$ 502,238	\$ 1,018,987	\$ 15,745	\$ (1,004,000)	\$ 532,970	\$ 14,932	\$ (15,625)	\$ 532,277
---	------------	--------------	-----------	----------------	------------	-----------	--------------	------------

**Condensed Consolidating Statement of Income and
Comprehensive Income**

Three Months Ended September 30, 2011	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries	HEP Elimination (HEP Segment)	Consolidated
(In thousands)								
Sales and other revenues	\$ 266	\$ 5,164,628	\$ 33	\$ —	\$ 5,164,927	\$ 49,131	\$ (40,660)	\$ 5,173,398
Operating costs and expenses:								
Cost of products sold	—	4,029,997	—	—	4,029,997	—	(40,070)	3,989,927
Operating expenses	—	213,002	7	—	213,009	15,015	(141)	227,883
General and administrative	39,555	1,562	—	—	41,117	2,024	—	43,141
Depreciation and amortization	872	35,070	—	—	35,942	7,505	(207)	43,240
Total operating costs and expenses	40,427	4,279,631	7	—	4,320,065	24,544	(40,418)	4,304,191
Income (loss) from operations	(40,161)	884,997	26	—	844,862	24,587	(242)	869,207
Other income (expense):								
Earnings of equity method investments	892,420	8,400	8,469	(900,929)	8,360	641	(8,469)	532
Interest income (expense)	(15,162)	(977 )	) 14	—	(16,125)	(9,391)	646	(24,870)
Merger transaction costs	(9,100)	—	—	—	(9,100)	—	—	(9,100)
	868,158	7,423	8,483	(900,929)	(16,865)	(8,750)	(7,823)	(33,438)
Income before income taxes	827,997	892,420	8,509	(900,929)	827,997	15,837	(8,065)	835,769
Income tax provision	304,835	—	—	—	304,835	(77)	—	304,758
Net income	523,162	892,420	8,509	(900,929)	523,162	15,914	(8,065)	531,011
	—	—	—	—	—	7,923	—	7,923

Edgar Filing: HollyFrontier Corp - Form 10-Q

Less net income attributable to noncontrolling interest							
Net income attributable to HollyFrontier stockholders	\$523,162	\$892,420	\$ 8,509	\$ (900,929)	\$ 523,162	\$ 7,991	\$ (8,065) \$ 523,088
Comprehensive income attributable to HollyFrontier stockholders	\$514,759	\$913,835	\$ 8,509	\$ (900,929)	\$ 536,174	\$ 8,368	\$ (8,065) \$ 536,477

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Nine Months Ended September 30, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries Eliminations (HEP Segment)	Non-Guarantor Non-Restricted Subsidiaries Eliminations Consolidated
(In thousands)							
Sales and other revenues	\$394	\$14,908,154	\$138	\$—	\$14,908,686	\$207,250	\$172,719 \$14,943,217
Operating costs and expenses:							
Cost of products sold	—	11,932,230	—	—	11,932,230	—	(164,813) 11,767,417
Operating expenses	—	642,153	33	—	642,186	61,724	(5,698) 698,212
General and administrative	81,147	1,299	50	—	82,496	5,925	— 88,421
Depreciation and amortization	6,644	133,456	—	—	140,100	38,683	(621) 178,162
Total operating costs and expenses	87,791	12,709,138	83	—	12,797,012	106,332	(171,132) 12,732,212
Income (loss) from operations	(87,397)	2,199,016	55	—	2,111,674	100,918	(1,587) 2,211,005
Other income (expense):							
Earnings of equity method investments	2,240,275	42,707	42,163	(2,283,029)	42,116	2,502	(42,163) 2,455
Interest income (expense)	(34,194)	(1,774 )	) 536	—	(35,432)	(44,306)	1,738 (78,000)
Gain on sale of marketable securities	—	326	—	—	326	—	— 326
Income before income taxes	2,206,081	41,259	42,699	(2,283,029)	7,010	(41,804)	(40,425) (75,219)
Income tax provision	2,118,684	2,240,275	42,754	(2,283,029)	2,118,684	59,114	(42,012) 2,135,786
Net income	775,459	—	—	—	775,459	287	— 775,746
Less net income	1,343,225	2,240,275	42,754	(2,283,029)	1,343,225	58,827	(42,012) 1,360,040
	—	—	—	—	—	24,472	— 24,472

Edgar Filing: HollyFrontier Corp - Form 10-Q

attributable to noncontrolling interest								
Net income								
attributable to HollyFrontier stockholders	\$1,343,225	\$2,240,275	\$42,754	\$(2,283,029)	\$1,343,225	\$34,355	\$(42,012)	\$1,335,568
Comprehensive income								
attributable to HollyFrontier stockholders	\$1,179,627	\$2,263,429	\$42,754	\$(2,283,029)	\$1,202,781	\$34,405	\$(42,012)	\$1,195,174

**Condensed Consolidating Statement of Income and
Comprehensive Income**

Nine Months Ended September 30, 2011	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries	Eliminations (HEP Segment)	Consolidated
(In thousands)								
Sales and other revenues	\$1,067	\$10,432,420	\$33	\$—	\$10,433,520	\$144,916	\$(111,320)	\$10,467,116
Operating costs and expenses:								
Cost of products sold	—	8,531,358	—	—	8,531,358	—	(109,719)	8,421,639
Operating expenses	—	459,679	186	—	459,865	41,821	285	501,971
General and administrative	71,884	1,769	—	—	73,653	4,988	—	78,641
Depreciation and amortization	2,719	81,875	—	—	84,594	22,407	(621)	106,380
Total operating costs and expenses	74,603	9,074,681	186	—	9,149,470	69,216	(110,055)	9,108,631
Income (loss) from operations	(73,536)	1,357,739	(153)	—	1,284,050	75,700	(1,265)	1,358,485
Other income (expense):								
Earnings of equity method investments	1,380,375	25,231	25,454	(1,405,715)	25,345	1,848	(25,454)	1,739
Interest income (expense)	(27,033)	(2,595)	39	—	(29,589)	(27,789)	1,853	(55,525)
Merger transaction costs	(15,114)	—	—	—	(15,114)	—	—	(15,114)
	1,338,228	22,636	25,493	(1,405,715)	(19,358)	(25,941)	(23,601)	(68,900)

Edgar Filing: HollyFrontier Corp - Form 10-Q

Income before income taxes	1,264,692	1,380,375	25,340	(1,405,715)	1,264,692	49,759	(24,866)	1,289,585
Income tax provision	465,561	—	—	—	465,561	169	—	465,730
Net income	799,131	1,380,375	25,340	(1,405,715)	799,131	49,590	(24,866)	823,855
Less net income attributable to noncontrolling interest	—	—	—	—	—	23,838	—	23,838
Net income attributable to HollyFrontier stockholders	\$799,131	\$1,380,375	\$25,340	\$(1,405,715)	\$799,131	\$25,752	\$(24,866)	\$800,017
Comprehensive income attributable to HollyFrontier stockholders	\$790,561	\$1,401,542	\$25,340	\$(1,405,715)	\$811,728	\$26,701	\$(24,866)	\$813,563

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2012	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Corp. Before Restricted Consolidation Subsidiaries	HollyFrontier Corp. Before Restricted Consolidation Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)		Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
					HEP	Subsidiaries			
(In thousands)									
Cash flows from operating activities		\$1,260,731	\$(142,743)	\$—	\$ 1,117,988	\$ 100,652	\$(46,852)	\$ 1,171,788	
Cash flows from investing activities									
Additions to properties, plants and equip	(4,993)	(173,242)	—	(178,235)	—	—	—	(178,235)	
Additions to properties, plants and equip – HEP	—	—	—	—	(29,302)	—	—	(29,302)	
Investment in Sabine Biofuels	—	(2,000)	—	(2,000)	—	—	—	(2,000)	
Purchases of marketable securities	(236,315)	—	—	(236,315)	—	—	—	(236,315)	
Sales and maturities of marketable securities	211,286	930	—	212,216	—	—	—	212,216	
	(30,022)	(174,312)	—	(204,334)	(29,302)	—	—	(233,636)	
Cash flows from financing activities									
Net borrowings under credit agreement – HEP	—	—	—	—	231,000	—	—	231,000	
Repayment of promissory notes	—	72,900	—	72,900	(72,900)	—	—	—	
Net proceeds from issuance of senior notes - HEP	—	—	—	—	294,750	—	—	294,750	
Principal tender on senior notes - HFC	(205,000)	—	—	(205,000)	—	—	—	(205,000)	
Principal tender on senior notes - HEP	—	—	—	—	(185,000)	—	—	(185,000)	
Purchase of treasury stock	(190,307)	—	—	(190,307)	—	—	—	(190,307)	
Structured stock repurchase agreement	8,620	—	—	8,620	—	—	—	8,620	
Contribution from joint venture partner	—	—	—	—	6,000	—	—	6,000	
Contribution from general partner	—	(10,286)	—	(10,286)	10,286	—	—	—	
	—	260,922	—	260,922	(260,922)	—	—	—	

Edgar Filing: HollyFrontier Corp - Form 10-Q

Distribution from HEP upon UNEV transfer							
Dividends	(382,610)	—	—	(382,610)	—	—	(382,610)
Distributions to noncontrolling interest	—	—	—	—	(91,063)	47,314	(43,749)
Excess tax benefit from equity-based compensation	16,021	—	—	16,021	—	—	16,021
Purchase of units for incentive grants - HEP	—	—	—	—	(4,919)	—	(4,919)
Deferred financing costs	—	(67)	—	(67)	(3,222)	—	(3,289)
Other	—	(967)	—	(967)	264	(462)	(1,165)
	(753,276)	322,502	—	(430,774)	(75,726)	46,852	(459,648)
Cash and cash equivalents							
Increase (decrease) for the period	477,433	5,447	—	482,880	(4,376)	—	478,504
Beginning of period	1,575,891	(3,358)	2	1,572,535	6,369	—	1,578,904
End of period	\$2,053,324	\$ 2,089	\$ 2	\$ 2,055,415	\$ 1,993	\$ —	\$ 2,057,408

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2011	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Corp. Before Restricted Consolidation Subsidiaries of HEP	HollyFrontier Corp. After Consolidation Subsidiaries of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)		Non-Guarantor Non-Restricted Subsidiaries Eliminations Consolidated Segment)
					(In thousands)		
Cash flows from operating activities	\$ 1,690,926	\$(664,988)	\$ —	\$ 1,025,938	\$ 93,299	\$ (30,034)	\$ 1,089,203
Cash flows from investing activities:							
Additions to properties, plants and equip	(6,056)	(92,372)	—	(98,428)	—	—	(98,428)
Additions to properties, plants and equip – HEP	—	—	—	—	(175,795)	—	(175,795)
Investment in Sabine Biofuels	(9,125)	—	—	(9,125)	—	—	(9,125)
Cash received in merger with Frontier	182	871,976	—	872,158	—	—	872,158
Purchases of marketable securities	(370,042)	—	—	(370,042)	—	—	(370,042)
Sales and maturities of marketable securities	194,386	—	—	194,386	—	—	194,386
	(190,655)	779,604	—	588,949	(175,795)	—	413,154
Cash flows from financing activities:							
Net borrowings under credit agreement – HEP	—	—	—	—	43,000	—	43,000
Purchase of treasury stock	(38,955)	—	—	(38,955)	—	—	(38,955)
Principal tender on senior notes – HFC	(15)	—	—	(15)	—	—	(15)
Contribution to HEP	—	(96,000)	—	(96,000)	96,000	—	—
Contribution from UNEV joint venture partner	—	—	—	—	27,500	—	27,500
Dividends	(129,377)	—	—	(129,377)	—	—	(129,377)
Distributions to noncontrolling interest	—	—	—	—	(67,963)	30,034	(37,929)
Excess tax benefit from equity-based compensation	1,399	—	—	1,399	—	—	1,399
Purchase of units for restricted grants - HEP	—	—	—	—	(1,641)	—	(1,641)

Edgar Filing: HollyFrontier Corp - Form 10-Q

Deferred financing costs	(8,574	) —	—	(8,574	) (3,150	) —	(11,724)
Other	—	(857	) —	(857	) —	—	(857)
	(175,522	) (96,857	) —	(272,379	) 93,746	30,034	(148,599)
Cash and cash equivalents								
Increase (decrease) for the period:	1,324,749	17,759	—	1,342,508	11,250	—	1,353,758	
Beginning of period	230,082	(9,035	) 2	221,049	8,052	—	229,101	
End of period	\$ 1,554,831	\$ 8,724	\$ 2	\$ 1,563,557	\$ 19,302	\$ —	\$ 1,582,859	

Table of Content

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. References herein to HollyFrontier Corporation ("HollyFrontier") include HollyFrontier 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 HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person, with certain exceptions. Generally, the words "we," "our," "ours" and "us" include Holly Energy Partners, L.P. ("HEP") and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, "HEP" refers to HEP and its consolidated subsidiaries.

We merged with Frontier Oil Corporation ("Frontier") effective July 1, 2011. Accordingly, this document includes Frontier, its consolidated subsidiaries and the operations of the merged Frontier businesses effective July 1, 2011, but not prior to this date.

OVERVIEW

We are principally an independent petroleum refiner that produces high-value refined products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate refineries having a combined crude oil processing capacity of 443,000 barrels per day that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. Our refineries are located in El Dorado, Kansas (the "El Dorado Refinery"), Tulsa, Oklahoma (the, "Tulsa Refineries"), which comprise two production facilities, the Tulsa West and East facilities, a petroleum refinery in Artesia, New Mexico, which operates in conjunction with crude, vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the "Navajo Refinery"), Cheyenne, Wyoming (the, "Cheyenne Refinery") and Woods Cross, Utah (the "Woods Cross Refinery").

On February 21, 2011, we entered into a merger agreement providing for a "merger of equals" business combination between us and Frontier. On July 1, 2011, North Acquisition, Inc. a direct wholly-owned subsidiary of Holly Corporation ("Holly") merged with and into Frontier, with Frontier surviving as a wholly-owned subsidiary of Holly. Concurrent with the merger, we changed our name to HollyFrontier Corporation and changed the ticker symbol for our common stock traded on the New York Stock Exchange to "HFC." Subsequent to the merger and following approval by the post-closing board of directors of HollyFrontier, Frontier merged with and into HollyFrontier, with HollyFrontier continuing as the surviving corporation. This merger combined the legacy Frontier refinery operations consisting of the El Dorado and Cheyenne Refineries, with Holly's legacy refinery operations to form HollyFrontier.

Our discussion of financial and operating results for the three and nine months ended September 30, 2012 and 2011 is presented in the following section.

Table of Content

RESULTS OF OPERATIONS

Financial Data (Unaudited)

	Three Months Ended September 30, 2012		Change from 2011	
	2012	2011	Change	Percent
(In thousands, except per share data)				
Sales and other revenues	\$5,204,798	\$5,173,398	\$31,400	0.6 %
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	3,898,736	3,989,927	(91,191)	(2.3)
Operating expenses (exclusive of depreciation and amortization)	233,859	227,883	5,976	2.6
General and administrative expenses (exclusive of depreciation and amortization)	28,787	43,141	(14,354)	(33.3)
Depreciation and amortization	65,112	43,240	21,872	50.6
Total operating costs and expenses	4,226,494	4,304,191	(77,697)	(1.8)
Income from operations	978,304	869,207	109,097	12.6
Other income (expense):				
Earnings of equity method investments	852	532	320	60.2
Interest income	2,219	204	2,015	987.7
Interest expense	(21,103)	(25,074)	3,971)	(15.8)
Merger transaction costs	—	(9,100)	9,100)	(100.0)
	(18,032)	(33,438)	15,406)	(46.1)
Income before income taxes	960,272	835,769	124,503	14.9
Income tax provision	349,622	304,758	44,864	14.7
Net income	610,650	531,011	79,639	15.0
Less net income attributable to noncontrolling interest	10,277	7,923	2,354	29.7
Net income attributable to HollyFrontier stockholders	\$600,373	\$523,088	\$77,285	14.8 %
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$2.95	\$2.50	\$0.45	18.0 %
Diluted	\$2.94	\$2.48	\$0.46	18.5 %
Cash dividends declared per common share	\$1.15	\$0.59	\$0.56	94.9 %
Average number of common shares outstanding:				
Basic	203,557	209,583	(6,026)	(2.9)%
Diluted	204,434	210,579	(6,145)	(2.9)%

Edgar Filing: HollyFrontier Corp - Form 10-Q

Table of Content

	Nine Months Ended			
	September 30, 2012	2011 ⁽¹⁾	Change	Change from 2011 Percent
(In thousands, except per share data)				
Sales and other revenues	\$14,943,217	\$10,467,116	\$4,476,101	42.8 %
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	11,767,417	8,421,639	3,345,778	39.7
Operating expenses (exclusive of depreciation and amortization)	698,212	501,971	196,241	39.1
General and administrative expenses (exclusive of depreciation and amortization)	88,421	78,641	9,780	12.4
Depreciation and amortization	178,162	106,380	71,782	67.5
Total operating costs and expenses	12,732,212	9,108,631	3,623,581	39.8
Income from operations	2,211,005	1,358,485	852,520	62.8
Other income (expense):				
Earnings of equity method investments	2,455	1,739	716	41.2
Interest income	3,360	946	2,414	255.2
Interest expense	(81,360)	) (56,471)	) (24,889	) 44.1
Gain on sale of marketable securities	326	—	326	—
Merger transaction costs	—	(15,114)	) 15,114	(100.0)
(75,219)	) (68,900)	) (6,319	) 9.2	
Income before income taxes	2,135,786	1,289,585	846,201	65.6
Income tax provision	775,746	465,730	310,016	66.6
Net income	1,360,040	823,855	536,185	65.1
Less net income attributable to noncontrolling interest	24,472	23,838	634	2.7
Net income attributable to HollyFrontier stockholders	\$1,335,568	\$800,017	\$535,551	66.9 %
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$6.46	\$5.66	\$0.80	14.1 %
Diluted	\$6.44	\$5.63	\$0.81	14.4 %
Cash dividends declared per common share	\$2.40	\$0.74	\$1.66	224.3 %
Average number of common shares outstanding:				
Basic	206,657	141,353	65,304	46.2 %
Diluted	207,546	142,092	65,454	46.1 %

(1) Our consolidated financial and operating results reflect the operations of the merged Frontier businesses beginning July 1, 2011. Assuming the merger had been consummated on January 1, 2011, pro forma revenues and net income for the nine months ended September 30, 2011 are as follows:

	Nine Months Ended September 30, 2011 (In thousands)
Sales and other revenues	\$14,446,297
Net income attributable to HollyFrontier stockholders	\$1,118,018

Balance Sheet Data

September 30, 2012	December 31, 2011
-----------------------	----------------------

Edgar Filing: HollyFrontier Corp - Form 10-Q

	(Unaudited)	
	(In thousands)	
Cash, cash equivalents and investments in marketable securities	\$2,343,336	\$1,840,610
Working capital	\$2,554,761	\$2,030,063
Total assets	\$10,345,936	\$9,576,243
Long-term debt	\$1,346,227	\$1,214,742
Total equity	\$6,359,496	\$5,835,900

38

Table of Content

Other Financial Data (Unaudited)

	Three Months Ended September 30, 2012 (In thousands)	2011	Nine Months Ended September 30, 2012 (In thousands)	2011
Net cash provided by operating activities	\$742,285	\$631,207	\$1,171,788	\$1,089,203
Net cash provided by (used for) investing activities	\$ (89,183)	\$ 668,216	\$ (233,636)	\$ 413,154
Net cash provided by (used for) financing activities	\$ 32,108	\$ (143,253)	\$ (459,648)	\$ (148,599)
Capital expenditures	\$ 79,517	\$ 117,918	\$ 207,537	\$ 274,223
EBITDA ⁽¹⁾	\$ 1,033,991	\$ 895,956	\$ 2,367,476	\$ 1,427,652

Earnings before interest, taxes, depreciation and amortization, which we refer to as “EBITDA”, is calculated as net income 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 GAAP; 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

(1) 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 organized into two reportable segments, Refining and HEP. See Note 18 “Segment Information” in the Notes to Consolidated Financial Statements for additional information on our reportable segments.

Refining Operating Data (Unaudited)

The following tables set forth information, including non-GAAP performance measures, about our 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, 2012	2011	Nine Months Ended September 30, 2012	2011 ⁽¹⁰⁾
Mid-Continent Region (El Dorado and Tulsa Refineries)				
Crude charge (BPD) ⁽¹⁾	256,850	263,260	252,110	160,230
Refinery throughput (BPD) ⁽²⁾	278,990	283,970	270,380	168,150
Refinery production (BPD) ⁽³⁾	268,310	272,790	262,830	162,900
Sales of produced refined products (BPD)	246,360	263,180	249,320	159,230
Sales of refined products (BPD) ⁽⁴⁾	248,690	268,680	253,050	161,750
Refinery utilization ⁽⁵⁾	98.8	% 101.3	% 97.0	% 94.0
Average per produced barrel ⁽⁶⁾				
Net sales	\$ 121.83	\$ 122.82	\$ 120.19	\$ 122.74
Cost of products ⁽⁷⁾	92.84	96.18	96.49	100.32
Refinery gross margin	28.99	26.64	23.70	22.42

Edgar Filing: HollyFrontier Corp - Form 10-Q

Refinery operating expenses ⁽⁸⁾	4.71	4.57	4.72	5.09	
Net operating margin	\$24.28	\$22.07	\$18.98	\$17.33	
Refinery operating expenses per throughput barrel ⁽⁹⁾	\$4.16	\$4.23	\$4.35	\$4.82	
Feedstocks:					
Sweet crude oil	69	% 75	% 70	% 84	%
Sour crude oil	9	% 7	% 8	% 4	%
Heavy sour crude oil	14	% 11	% 15	% 7	%
Other feedstocks and blends	8	% 7	% 7	% 5	%
Total	100	% 100	% 100	% 100	%

Table of Content

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011 ⁽¹⁰⁾
Mid-Continent Region (El Dorado and Tulsa Refineries)				
Sales of produced refined products:				
Gasolines				
Gasolines	50	% 44	% 47	% 41
Diesel fuels	26	% 35	% 29	% 33
Jet fuels	10	% 7	% 10	% 7
Fuel oil	1	% —	% 1	% —
Asphalt	2	% 2	% 2	% 4
Lubricants	5	% 4	% 5	% 7
Gas oil / intermediates	—	% 2	% —	% 4
LPG and other	6	% 6	% 6	% 4
Total	100	% 100	% 100	% 100
Southwest Region (Navajo Refinery)				
Crude charge (BPD) ⁽¹⁾	101,480	92,270	91,890	82,860
Refinery throughput (BPD) ⁽²⁾	110,080	100,290	100,558	91,220
Refinery production (BPD) ⁽³⁾	108,810	100,100	98,980	90,230
Sales of produced refined products (BPD)	106,370	99,530	97,470	91,310
Sales of refined products (BPD) ⁽⁴⁾	110,760	102,940	102,450	95,980
Refinery utilization ⁽⁵⁾	101.5	% 92.3	% 91.9	% 82.9
Average per produced barrel ⁽⁶⁾				
Net sales	\$122.16	\$120.67	\$123.64	\$119.84
Cost of products ⁽⁷⁾	92.26	92.33	97.37	97.37
Refinery gross margin	29.90	28.34	26.27	22.47
Refinery operating expenses ⁽⁸⁾	5.14	5.30	5.57	5.56
Net operating margin	\$24.76	\$23.04	\$20.70	\$16.91
Refinery operating expenses per throughput barrel ⁽⁹⁾	\$4.97	\$5.26	\$5.40	\$5.57
Feedstocks:				
Sweet crude oil	2	% 4	% 2	% 4
Sour crude oil	75	% 70	% 78	% 72
Heavy sour crude oil	16	% 18	% 11	% 15
Other feedstocks and blends	7	% 8	% 9	% 9
Total	100	% 100	% 100	% 100
Sales of produced refined products:				
Gasolines	52	% 50	% 52	% 51
Diesel fuels	36	% 34	% 37	% 34
Jet fuels	—	% 1	% —	% 1
Fuel oil	7	% 7	% 6	% 6
Asphalt	2	% 5	% 2	% 5
LPG and other	3	% 3	% 3	% 3
Total	100	% 100	% 100	% 100

Edgar Filing: HollyFrontier Corp - Form 10-Q

Rocky Mountain Region (Cheyenne and Woods Cross
Refineries)

Crude charge (BPD) ⁽¹⁾	75,040	70,060	73,660	41,050
Refinery throughput (BPD) ⁽²⁾	82,030	75,860	81,550	44,340
Refinery production (BPD) ⁽³⁾	79,500	73,620	79,650	43,030
Sales of produced refined products (BPD)	81,200	72,400	79,360	42,390
Sales of refined products (BPD) ⁽⁴⁾	83,080	74,410	81,590	43,090
Refinery utilization ⁽⁵⁾	90.4	% 84.4	% 88.7	% 84.6 %

Edgar Filing: HollyFrontier Corp - Form 10-Q

Table of Content

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	2011 ⁽¹⁰⁾
Rocky Mountain Region (Cheyenne and Woods Cross Refineries)				
Average per produced barrel ⁽⁶⁾				
Net sales	\$120.44	\$119.40	\$117.51	\$119.07
Cost of products ⁽⁷⁾	84.35	86.35	88.87	90.00
Refinery gross margin	36.09	33.05	28.64	29.07
Refinery operating expenses ⁽⁸⁾	6.30	6.55	6.30	6.44
Net operating margin	\$29.79	\$26.50	\$22.34	\$22.63
Refinery operating expenses per throughput barrel ⁽⁹⁾	\$6.24	\$6.25	\$6.13	\$6.16
Feedstocks:				
Sweet crude oil	51	% 49	% 44	% 53
Sour crude oil	2	% 3	% 2	% 2
Heavy sour crude oil	28	% 31	% 33	% 20
Black wax crude oil	11	% 10	% 11	% 18
Other feedstocks and blends	8	% 7	% 10	% 7
Total	100	% 100	% 100	% 100
Sales of produced refined products:				
Gasolines	56	% 50	% 55	% 55
Diesel fuels	31	% 34	% 31	% 32
Jet fuels	—	% —	% —	% 1
Fuel oil	2	% 1	% 2	% 2
Asphalt	7	% 7	% 6	% 5
LPG and other	4	% 8	% 6	% 5
Total	100	% 100	% 100	% 100
Consolidated				
Crude charge (BPD) ⁽¹⁾	433,370	425,590	417,660	284,140
Refinery throughput (BPD) ⁽²⁾	471,100	460,120	452,488	303,710
Refinery production (BPD) ⁽³⁾	456,620	446,510	441,460	296,160
Sales of produced refined products (BPD)	433,930	435,110	426,150	292,930
Sales of refined products (BPD) ⁽⁴⁾	442,530	446,030	437,090	300,820
Refinery utilization ⁽⁵⁾	97.8	% 96.1	% 94.3	% 89.1
Average per produced barrel ⁽⁶⁾				
Net sales	\$121.66	\$121.76	\$120.48	\$121.31
Cost of products ⁽⁷⁾	91.11	93.66	95.28	97.91
Refinery gross margin	30.55	28.10	25.20	23.40
Refinery operating expenses ⁽⁸⁾	5.11	5.07	5.21	5.43
Net operating margin	\$25.44	\$23.03	\$19.99	\$17.97
Refinery operating expenses per throughput barrel ⁽⁹⁾	\$4.71	\$4.79	\$4.91	\$5.24
Feedstocks:				
Sweet crude oil	50	% 55	% 49	% 55

Edgar Filing: HollyFrontier Corp - Form 10-Q

Sour crude oil	23	% 20	% 22	% 24	%
Heavy sour crude oil	17	% 15	% 16	% 12	%
Black wax crude oil	2	% 2	% 2	% 3	%
Other feedstocks and blends	8	% 8	% 11	% 6	%
Total	100	% 100	% 100	% 100	%

41

Table of Content

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012		2011 ⁽¹⁰⁾
Consolidated					
Sales of produced refined products:					
Gasolines	51	% 47	% 50	% 47	%
Diesel fuels	29	% 35	% 31	% 33	%
Jet fuels	6	% 4	% 6	% 4	%
Fuel oil	3	% 2	% 2	% 2	%
Asphalt	3	% 4	% 3	% 4	%
Lubricants	3	% 2	% 3	% 4	%
Gas oil / intermediates	—	% 1	% —	% 2	%
LPG and other	5	% 5	% 5	% 4	%
Total	100	% 100	% 100	% 100	%

(1)Crude charge represents the barrels per day of crude oil processed at our refineries.

(2)Refinery throughput represents the barrels per day of crude and other refinery feedstocks input to the crude units and other conversion units at our refineries.

(3)Refinery production represents the barrels per day of refined products yielded from processing crude and other refinery feedstocks through the crude units and other conversion units at our refineries.

(4)Includes refined products purchased for resale.

(5)Represents crude charge divided by total crude capacity (BPSD). As a result of our merger effective July 1, 2011, our consolidated crude capacity increased from 256,000 BPSD to 443,000 BPSD.

Represents average per barrel amount for produced refined products sold, which is a non-GAAP measure.

(6)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.

(7)Transportation, terminal and refinery storage costs billed from HEP are included in cost of products.

(8)Represents operating expenses of our refineries, exclusive of depreciation and amortization.

(9)Represents refinery operating expenses, exclusive of depreciation and amortization, divided by refinery throughput.

Refining operating data for the nine months ended September 30, 2011 include crude oil processed and products

(10)yielded from the El Dorado and Cheyenne Refineries for the period from July 1, 2011 through September 30, 2011 only, and averaged over the 273 days in the nine months ended September 30, 2011.

Table of Content

Results of Operations – Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Summary

Net income attributable to HollyFrontier stockholders for the three months ended September 30, 2012 was \$600.4 million (\$2.95 per basic and \$2.94 per diluted share), a \$77.3 million increase compared to \$523.1 million (\$2.50 per basic and \$2.48 per diluted share) for the three months ended September 30, 2011. Net income increased due principally to higher year-over-year third quarter refining margins. Refinery gross margins for the three months ended September 30, 2012 increased to \$30.55 per produced barrel compared to \$28.10 for the three months ended September 30, 2011.

Sales and Other Revenues

Sales and other revenues increased 1% from \$5,173.4 million for the three months ended September 30, 2011 to \$5,204.8 million for the three months ended September 30, 2012 on relatively flat year-over-year third quarter sales volumes of refined products sold. The average sales price we received per produced barrel sold was \$121.76 for the three months ended September 30, 2011 compared to \$121.66 for the three months ended September 30, 2012. Sales and other revenues for the three months ended September 30, 2012 and 2011 include \$11.9 million and \$8.3 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

Cost of Products Sold

Cost of products sold decreased 2% from \$3,989.9 million for the three months ended September 30, 2011 to \$3,898.7 million for the three months ended September 30, 2012, due principally to lower crude oil costs. The average price we paid per barrel for crude oil and feedstocks and the transportation costs of moving the finished products to the market place decreased 3% from \$93.66 for the three months ended September 30, 2011 to \$91.11 for the three months ended September 30, 2012.

Gross Refinery Margins

Gross refinery margin per produced barrel increased 9% from \$28.10 for the three months ended September 30, 2011 to \$30.55 for the three months ended September 30, 2012. This was due to the effects of a decrease in crude oil and feedstock prices relative to the average sales price we received per barrel of produced refined products sold. Gross refinery margin does not include the effects of depreciation and amortization. See “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part 1 of this Form 10-Q for a reconciliation to the income statement of prices of refined products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, increased 3% from \$227.9 million for the three months ended September 30, 2011 to \$233.9 million for the three months ended September 30, 2012, due principally to increased HEP operating expenses and higher repair and maintenance costs as a result of a fire at the Diesel Hydrotreater Unit at our Tulsa East Refinery facility in August 2012.

General and Administrative Expenses

General and administrative expenses decreased 33% from \$43.1 million for the three months ended September 30, 2011 to \$28.8 million for the three months ended September 30, 2012. General and administrative expenses for the three months ended September 30, 2011 were higher due to severance and integration costs incurred as a result of our July 2011 merger.

Depreciation and Amortization Expenses

Edgar Filing: HollyFrontier Corp - Form 10-Q

Depreciation and amortization increased 51% from \$43.2 million for the three months ended September 30, 2011 to \$65.1 million for the three months ended September 30, 2012. The increase was due principally to depreciation and amortization attributable to capitalized improvement projects and HEP's UNEV Pipeline which became operational in the first quarter of 2012.

Interest Expense

Interest expense was \$21.1 million for the three months ended September 30, 2012 compared to \$25.1 million for the three months ended September 30, 2011. This decrease was due principally to the recognition of an unamortized debt premium, which resulted in a net reduction of \$2.4 million to interest expense upon redemption of our 8.5% senior notes. For the three months ended September 30, 2012 and 2011, interest expense included \$12.5 million and \$9.4 million, respectively, in interest costs attributable to HEP operations.

Table of Content

Merger Transaction Costs

For the three months ended September 30, 2011, we recognized merger transaction costs of \$9.1 million related to our merger with Frontier effective July 1, 2011. These costs included legal, advisory and other professional fees that were directly attributable to the merger. There were no such costs incurred for the three months ended September 30, 2012.

Income Taxes

For the three months ended September 30, 2012, we recorded income tax expense of \$349.6 million compared to \$304.8 million for the three months ended September 30, 2011. This increase is due principally to significantly higher pre-tax earnings during the three months ended September 30, 2012 compared to the same period of 2011. Our effective tax rates, before consideration of earnings attributable to the noncontrolling interest, were 36.4% and 36.5% for the three months ended September 30, 2012 and 2011, respectively.

Results of Operations – Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Summary

Net income attributable to HollyFrontier stockholders for the nine months ended September 30, 2012 was \$1,335.6 million (\$6.46 per basic and \$6.44 per diluted share), a \$535.6 million increase compared to \$800.0 million (\$5.66 per basic and \$5.63 per diluted share) for the nine months ended September 30, 2011. Net income increased due principally to increased operating scale following our July 1, 2011 merger and higher refining margins in the current year. Refinery gross margins for the nine months ended September 30, 2012 increased to \$25.20 per produced barrel compared to \$23.40 for the nine months ended September 30, 2011.

Sales and Other Revenues

Sales and other revenues increased 43% from \$10,467.1 million for the nine months ended September 30, 2011 to \$14,943.2 million for the nine months ended September 30, 2012, due principally to the inclusion of revenues attributable to the El Dorado and Cheyenne Refineries for a full nine-month period and higher sales volumes of refined products produced from the legacy Holly refineries, slightly offset by lower year-to-date refined product sales prices. The average sales price we received per produced barrel sold decreased 1% from \$121.31 for the nine months ended September 30, 2011 to \$120.48 for the nine months ended September 30, 2012. Sales and other revenues for the nine months ended September 30, 2012 and 2011 include \$34.6 million and \$33.0 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

Cost of Products Sold

Cost of products sold increased 40% from \$8,421.6 million for the nine months ended September 30, 2011 to \$11,767.4 million for the nine months ended September 30, 2012, due principally to sales volumes attributable to the El Dorado and Cheyenne Refineries, partially offset by lower crude oil costs. The average price we paid per barrel for crude oil and feedstocks and the transportation costs of moving the finished products to the market place decreased 3% from \$97.91 for the nine months ended September 30, 2011 to \$95.28 for the nine months ended September 30, 2012.

Gross Refinery Margins

Gross refinery margin per produced barrel increased 8% from \$23.40 for the nine months ended September 30, 2011 to \$25.20 for the nine months ended September 30, 2012. This is due to the effects of a greater decrease in crude oil and feedstock prices relative to the decrease in average sales price we received per barrel of produced refined products sold. Gross refinery margin does not include the effects of depreciation and amortization. See “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part 1 of this Form 10-Q for a reconciliation to the income statement of prices of refined products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, increased 39% from \$502.0 million for the nine months ended September 30, 2011 to \$698.2 million for the nine months ended September 30, 2012, due principally to the inclusion of the legacy Frontier refinery operations and repair and maintenance costs, primarily as a result of a fire at the Diesel Hydrotreater Unit at our Tulsa East Refinery facility in August 2012. Also contributing to a much lesser extent were increases to our long-term environmental remediation cost estimates and increased payroll costs attributable to the legacy Holly refining operations.

General and Administrative Expenses

General and administrative expenses increased 12% from \$78.6 million for the nine months ended September 30, 2011 to \$88.4 million for the nine months ended September 30, 2012, due principally to higher employee benefit and equity-based compensation costs and increased corporate staffing levels as a result of our July 1, 2011 merger, net of the effects of merger related severance and integration costs incurred during the third quarter of 2011.

Table of Content

Depreciation and Amortization Expenses

Depreciation and amortization increased 67% from \$106.4 million for the nine months ended September 30, 2011 to \$178.2 million for the nine months ended September 30, 2012. The increase was due principally to depreciation and amortization attributable to the legacy Frontier refinery assets, capitalized improvement projects and HEP's UNEV Pipeline.

Interest Expense

Interest expense was \$81.4 million for the nine months ended September 30, 2012 compared to \$56.5 million for the nine months ended September 30, 2011. This increase principally reflects interest on the senior notes assumed upon our merger with Frontier. For the nine months ended September 30, 2012 and 2011, interest expense included \$44.4 million and \$27.8 million, respectively, in interest costs attributable to HEP operations.

Merger Transaction Costs

For the nine months ended September 30, 2011, we recognized merger transaction costs of \$15.1 million related to our merger with Frontier effective July 1, 2011. These costs included legal, advisory and other professional fees that were directly attributable to the merger. There were no such costs incurred for the nine months ended September 30, 2012.

Income Taxes

For the nine months ended September 30, 2012, we recorded income tax expense of \$775.7 million compared to \$465.7 million for the nine months ended September 30, 2011. This increase is due principally to significantly higher pre-tax earnings during the nine months ended September 30, 2012 compared to the same period of 2011. Our effective tax rates, before consideration of earnings attributable to the noncontrolling interest, were 36.3% and 36.1% for the nine months ended September 30, 2012 and 2011, respectively.

LIQUIDITY AND CAPITAL RESOURCES

HollyFrontier Credit Agreement

We have a \$1 billion senior secured credit agreement (the "HollyFrontier Credit Agreement") with Union Bank, N.A. as administrative agent and certain lenders from time to time party thereto. The HollyFrontier Credit Agreement matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries.

At September 30, 2012, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$29.2 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement

In June 2012, HEP amended its previous credit agreement increasing the size of the credit facility from \$375 million to \$550 million. HEP's \$550 million senior secured revolving credit facility matures in June 2017 (the "HEP Credit Agreement") and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit and to fund distributions to unitholders up to a \$60 million sub-limit. At September 30, 2012, the HEP Credit Agreement had outstanding borrowings of \$431.0 million

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets (presented parenthetically in our consolidated balance sheets). Indebtedness under the HEP Credit Agreement involves recourse to HEP Logistics Holdings, L.P., its general partner, and is 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

Edgar Filing: HollyFrontier Corp - Form 10-Q

than its investment in HEP, are not significant. HEP's creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Senior Notes

Our senior notes consist of the following:

9.875% senior notes (\$286.8 million principal amount maturing June 2017)

6.875% senior notes (\$150 million principal amount maturing November 2018)

Table of Content

These senior notes (collectively the “HollyFrontier Senior Notes”) are unsecured and impose certain restrictive covenants, including limitations on our 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 HollyFrontier 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 HollyFrontier Senior Notes.

In September 2012, we redeemed our \$200 million aggregate principal amount of 8.5% senior notes maturing September 2016 at a \$208.5 million redemption price. At that time, we recognized an unamortized debt premium which was netted against the \$8.5 million redemption premium, resulting in a net reduction of \$2.4 million to interest expense upon redemption.

HollyFrontier Financing Obligation

We have a financing obligation that relates to a sale and lease-back of certain crude oil tankage that we sold to an affiliate of Plains All American Pipeline, L.P. (“Plains”) in October 2009. Under this transaction, the \$40.0 million in cash proceeds received was recorded as a liability. Monthly lease payments are recorded as a reduction in principal over the 15-year lease term ending in 2024.

HEP Senior Notes

HEP’s senior notes consist of the following:

8.25% HEP senior notes (\$150 million principal amount maturing March 2018)

6.5% HEP senior notes (\$300 million principal amount maturing March 2020)

In March 2012, HEP issued \$300 million in an aggregate principal amount of 6.5% HEP senior notes maturing March 2020. The \$294.8 million in net proceeds were used to repay \$157.8 million aggregate principal amount of 6.25% HEP senior notes, \$72.9 million in promissory notes due to HollyFrontier, related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the HEP Credit Agreement. In April 2012, HEP called for redemption the \$27.3 million aggregate principal amount outstanding of 6.25% HEP senior notes.

The 8.25% and 6.5% HEP senior notes (collectively, 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 involves recourse to HEP Logistics Holdings, L.P., its general partner, and is guaranteed by HEP’s wholly-owned subsidiaries. However, 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. HEP’s creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

See “Risk Management” for a discussion of HEP’s interest rate swap contracts.

Liquidity

We believe our current cash and cash equivalents, along with future internally generated cash flow and funds available under our credit facilities will provide sufficient resources to fund currently planned capital projects and our liquidity needs for the foreseeable future. In addition, components of our growth strategy include construction of new refinery

Edgar Filing: HollyFrontier Corp - Form 10-Q

processing units and the expansion of existing units at our facilities and selective acquisition of complementary assets for our refining operations intended to increase earnings and cash flow.

As of September 30, 2012, our cash, cash equivalents and investments in marketable securities totaled \$2.3 billion. We consider all highly-liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, and are invested primarily in conservative, highly-rated instruments issued by financial institutions or government entities with strong credit standings.

In January 2012, our Board of Directors approved a \$350 million stock repurchase program, and in June 2012, approved an additional \$350 million repurchase program that authorizes us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions, corporate, regulatory and other relevant considerations. These programs may be discontinued at any time by the Board of Directors. As of September 30, 2012, we have repurchased 6,351,498 shares at a cost of \$189.8 million under these stock repurchase programs.

Table of Content

In May 2012, we entered into a structured share repurchase arrangement with a financial institution under which we provided an up-front cash payment of \$100.0 million and, depending on market conditions, would either receive shares of our common stock or cash at the expiration of the agreement. The agreement expired in September 2012 at which time we received our up-front payment plus an additional \$8.6 million in cash that was recorded as additional capital.

Cash and cash equivalents increased \$478.5 million for the nine months ended September 30, 2012. Cash provided by operating activities of \$1,171.8 million exceeded net cash used for investing and financing activities of \$233.6 million and \$459.6 million, respectively. Working capital increased by \$524.7 million during the nine months ended September 30, 2012.

Cash Flows – Operating Activities

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Net cash flows provided by operating activities were \$1,171.8 million for the nine months ended September 30, 2012 compared to \$1,089.2 million for the nine months ended September 30, 2011, an increase of \$82.6 million. Net income for the nine months ended September 30, 2012 was \$1,360.0 million, an increase of \$536.2 million compared to \$823.9 million for the nine months ended September 30, 2011. Non-cash adjustments consisting of depreciation and amortization, gain on sale of equity securities, deferred income taxes, equity-based compensation expense and fair value changes to derivative instruments resulted in an increase to operating cash flows of \$215.0 million for the nine months ended September 30, 2012 compared to \$120.5 million for the same period in 2011. Changes in working capital items decreased cash flows by \$322.0 million for the nine months ended September 30, 2012 compared to an increase of \$166.9 million for the nine months ended September 30, 2011. The decrease in working capital items for the nine months ended September 30, 2012 was due principally to higher inventory levels, including increased crude inventory purchases in the third quarter of 2012 relative to year-end 2011. Additionally, for the nine months ended September 30, 2012, turnaround expenditures increased to \$74.6 million from \$28.0 million for the same period of 2011.

Cash Flows – Investing Activities and Planned Capital Expenditures

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Net cash flows used for investing activities were \$233.6 million for the nine months ended September 30, 2012 compared to net cash flows provided by investing activities of \$413.2 million for the nine months ended September 30, 2011, a decrease of \$646.8 million, primarily driven by cash received in the merger with Frontier in July 2011. Cash expenditures for properties, plants and equipment for the first nine months of 2012 decreased to \$207.5 million from \$274.2 million for the same period in 2011. These include HEP capital expenditures of \$29.3 million and \$175.8 million for the nine months ended September 30, 2012 and 2011, respectively. Also for the nine months ended September 30, 2012 and 2011, we invested \$236.3 million and \$370.0 million, respectively, in marketable securities and received proceeds of \$212.2 million and \$194.4 million, respectively, from the sale or maturity of marketable securities.

Planned Capital Expenditures

HollyFrontier Corporation

Each year our Board of Directors approves our annual capital budget which includes specific projects that our management is authorized to undertake. Additionally, when conditions warrant or as new opportunities arise, additional projects may be approved. The funds appropriated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures appropriated in that year's capital budget plus expenditures for

projects appropriated in prior years which have not yet been completed. Our appropriated capital budget for 2012 is \$241.0 million including both sustaining capital and major capital projects. We expect to spend approximately \$295.0 million in cash for capital projects in 2012, including projects approved in prior years, and this spending is comprised of \$115.0 million at the Tulsa Refineries, \$61.0 million at the Woods Cross Refinery, \$43.0 million at the El Dorado Refinery, \$33.0 million at the Cheyenne Refinery, \$34.0 million at the Navajo Refinery and \$9.0 million for miscellaneous projects. In addition, we expect to spend \$120.0 million on refinery turnarounds and tank maintenance.

A significant portion of our current capital spending is associated with compliance-oriented capital improvements. This spending is required due to existing consent decrees (for projects including FCC unit flue gas scrubbers and tail gas treatment units), federal fuels regulations (particularly, MSAT2 which mandates a reduction in the benzene content of blended gasoline), refinery waste water treatment improvements and other similar initiatives. Our refinery operations and related emissions are highly regulated at both federal and state levels, and we invest in our facilities as needed to remain in compliance with these standards. Additionally, when faced with new emissions or fuels standards, we seek to execute projects that facilitate compliance and also improve the operating costs and/or yields of associated refining processes.

Table of Content

El Dorado Refinery

Newly appropriated capital projects at the El Dorado Refinery include naphtha splitting and aromatics recovery unit revamps to reduce benzene in gasoline (MSAT2 compliance) and installation of a new tail gas treatment unit with our sulfur recovery facilities as required under an existing Environmental Protection Agency (“EPA”) consent decree. Also included in the 2012 capital budget are yield improvement projects that address both the FCC unit and the Coker. A previously appropriated project which we expect to complete in late 2012 is the replacement of an existing Coker furnace with more current furnace technology. This project is expected to improve Coker on-stream factor and reduce fuel consumption.

Tulsa Refineries

The most significant newly appropriated capital project for our Tulsa Refineries is conversion of a propane de-asphalt unit to ROSE technology. This project is expected to cost \$25.0 million and will increase processing of vacuum tower bottoms, increase the production of bright stock lube, reduce energy consumption, and allow the shutdown of a low-pressure steam boiler. Projects still underway from prior appropriations include a \$58.0 million project to recover sulfur from the refinery fuel gas system and to shut down another low-pressure steam boiler by electrification of turbine drivers. The sulfur recovery project is required to comply with our EPA consent decree but is being enhanced so as to increase our capacity to run lower priced sour / heavy crude in Tulsa. Other projects underway in Tulsa involve replacement of an existing vacuum tower and improvements to our wastewater treatment plants and storm water retention systems.

Navajo Refinery

We have approved a new project for the Navajo Refinery to remove sulfur and other contaminants from the crude unit off-gas stream that will improve liquid yields and reduce refinery fuel costs. Current spending on previously appropriated projects includes an MSAT2 project (naphtha splitting and benzene saturation) to reduce reliance on benzene credits purchases, as well as expenditures to improve the Artesia waste water handling and processing facilities.

Cheyenne Refinery

We have approved four new compliance projects for the Cheyenne Refinery including wastewater treatment plant improvements, a wet gas scrubber for the FCC unit to reduce particulate and other emissions, MSAT2 related investments to reduce benzene in gasoline, and spending for additional tail gas unit associated with our sulfur recovery facilities. We also plan to improve metallurgy on portions of the Cheyenne Refinery’s delayed coking unit. These new major capital appropriations total approximately \$60.0 million, and we expect to spend approximately 30% of this amount on these projects during 2012. Expenditures for MSAT2 compliance projects were accelerated by approximately one year at each of the Cheyenne and El Dorado Refineries due to the Holly-Frontier merger, which resulted in our loss of a small refiner exemption that previously provided for delayed compliance with this standard.

Woods Cross Refinery

We plan to significantly expand our Woods Cross Refinery in response to increased availability of locally-produced waxy crude oil. We have announced a 10-year crude supply agreement with Newfield Exploration Company under which we will purchase 20,000 BPD of waxy crudes (black and yellow wax). Our expansion project will increase crude processing capacity of Woods Cross from 31,000 BPD to 45,000 BPD. Most of the incremental crude supply is expected to be waxy crude, and the expansion is being configured to create high liquid yields and relatively large proportions of additional gasoline and diesel fuel in comparison to the increased crude charge. We expect this \$225.0 million project to have a pre-tax payback period of approximately two years, and we expect to complete the expansion in approximately the fourth quarter of 2014. Our execution of this project is subject to certain contingencies, including our receipt of required emissions and other permits. Also at Woods Cross, we have two significant compliance projects authorized in prior year appropriations. The first of these involves installation of a wet gas scrubber on the FCC unit to reduce particulate and other emissions and the second relates to MSAT2 compliance which will require

naphtha fractionation and benzene saturation.

Regulatory compliance items or other presently existing or future environmental regulations / consent decrees could cause us to make additional capital investments beyond those described above and incur additional operating costs to meet applicable requirements.

HEP

Each year the Holly Logistic Services, L.L.C. board of directors approves HEP's annual capital budget, which specifies capital projects that HEP management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, HEP's planned capital expenditures for a given year consist of expenditures approved for capital projects included in its current year capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2012 HEP capital budget is comprised of \$8.9 million for maintenance capital expenditures and \$25.8 million for expansion capital expenditures.

Table of Content

The UNEV Pipeline and associated product terminals in Cedar City, Utah and Las Vegas, Nevada were operational during the first quarter of 2012. On July 12, 2012, HEP acquired our 75% interest in UNEV Pipeline LLC, owner of the UNEV Pipeline. We received consideration totaling approximately \$315.0 million, which consisted of approximately \$260.0 million in cash and 1 million HEP common units.

HEP has recently made certain modifications to its crude oil gathering and trunk line system that have effectively increased HEP's ability to gather and transport an additional 10,000 BPD of Delaware Basin crude oil in response to increased drilling activity in southeast New Mexico. Furthermore, HEP has developed a project to replace a 5-mile section of this pipeline system that will allow for an additional 15,000 BPD of capacity that will be executed as needed if Delaware Basin crude volumes continue to increase. This project is estimated to cost approximately \$2.0 million. HEP has a second project which consists of the reactivation and conversion to crude oil service of a 70-mile, 8-inch petroleum products pipeline owned by HEP. Once in service, this pipeline will initially be capable of transporting up to 35,000 BPD of crude oil from southeast New Mexico to third-party common carrier pipelines in west Texas for further transport to major crude oil markets. The scope of this project is being finalized. Subject to receipt of acceptable shipper support and board approval, this project could be operational in early 2013.

Cash Flows – Financing Activities

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Net cash flows used for financing activities were \$459.6 million for the nine months ended September 30, 2012 compared to \$148.6 million for the nine months ended September 30, 2011, an increase of \$311.0 million. During the nine months ended September 30, 2012, we purchased \$190.3 million in common stock, paid \$382.6 million in dividends, paid \$205.0 million in principal on HFC's senior notes, received a \$6.0 million contribution from our UNEV Pipeline joint venture partner and recognized \$16.0 million excess tax benefits on our equity-based compensation. Also during this period, HEP received \$294.8 million in net proceeds upon the issuance of the HEP 6.5% senior notes, paid \$185.0 million in principal on the HEP 6.25% senior notes, received \$523.0 million and repaid \$292.0 million under the HEP Credit Agreement, paid distributions of \$43.7 million to noncontrolling interests, incurred \$3.3 million in deferred financing costs and purchased \$4.9 million in HEP common units in the open market for recipients of its incentive grants. During the nine months ended September 30, 2011, we purchased \$39.0 million in common stock, paid \$129.4 million in dividends, received a \$27.5 million contribution from our UNEV Pipeline joint venture partner and recognized \$1.4 million excess tax benefits on our equity-based compensation. Additionally, we incurred \$8.6 million in deferred financing costs. Also during this period, HEP received \$93.0 million and repaid \$50.0 million under the HEP Credit Agreement, paid distributions of \$37.9 million to noncontrolling interests, incurred \$3.2 million in deferred financing costs and purchased \$1.6 million in HEP common units in the open market for recipients of its incentive grants.

Contractual Obligations and Commitments

HollyFrontier Corporation

In September 2012, we redeemed \$200 million in aggregate principal amount of our 8.5% senior notes maturing September 2016. There were no other significant changes to our contractual obligations during the nine months ended September 30, 2012.

HEP

In June 2012, HEP amended its credit agreement increasing the size of the credit facility from \$375 million to \$550 million. The HEP Credit Agreement expires in June 2017. During the nine months ended September 30, 2012, HEP had net borrowings of \$231.0 million resulting in \$431.0 million of outstanding borrowings under the HEP Credit Agreement at September 30, 2012.

In March 2012, HEP issued \$300 million in aggregate principal amount of 6.5% senior notes maturing March 2020.

There were no other significant changes to HEP's long-term contractual obligations during this period.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Table of Content

Our significant accounting policies are described in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2011. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements include the assessment and consolidation of variable interest entities, the use of the LIFO method of valuing certain inventories, the amortization of deferred costs for regular major maintenance and repairs at our refineries, assessing the possible impairment of certain long-lived assets and goodwill, accounting for derivative instruments and assessing contingent liabilities for probable losses.

In the first quarter of 2012, we changed our policy of reporting certain same-party accounts receivable and payable amounts in the consolidated balance sheets to reflect a net amount due under contractual netting agreements. Prior to this change, we reported such amounts on a gross basis with a same-party receivable and payable balance presented separately in our balance sheet. GAAP permits a reporting entity to elect a policy of offsetting same party receivables and payables when such amounts are net settled under legally enforceable contractual setoff provisions. We believe that a net presentation is preferable because it more appropriately presents our economic resources (accounts receivable) and claims against us (accounts payable) and the future cash flows associated with such assets and liabilities. Additionally, we believe a net presentation of such amounts conforms to the predominant practices used by others in our industry. We have applied this change in accounting principle on a retrospective basis and have recast our prior period financial statements. See Note 2 to our Consolidated Financial Statements under Item 1 for a summary of line items affected in our prior period financial statements.

We use the 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.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually or more frequently if events or circumstances indicate the possibility of impairment. As of September 30, 2012, there have been no impairments to goodwill.

RISK MANAGEMENT

We use certain strategies to reduce some commodity price and operational risks. We do not attempt to eliminate all market risk exposures when we believe that the exposure relating to such risk would not be significant to our future earnings, financial position, capital resources or liquidity or that the cost of eliminating the exposure would outweigh the benefit.

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps and futures contracts to mitigate price exposure with respect to:

- our inventory positions;
- natural gas purchases;
- costs of crude oil and related grade differentials;
- prices of refined products; and
- our refining margins.

We have swap contracts serving as cash flow hedges against price risk on forecasted purchases of WTI crude oil and forecasted sales of ultra-low sulfur diesel and conventional unleaded gasoline. These contracts have been designated

as accounting hedges and are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to other comprehensive income. These fair value adjustments are later reclassified to earnings as the hedging instruments mature. Also on a quarterly basis, hedge ineffectiveness is measured by comparing the change in fair value of the swap contracts against the expected future cash inflows/outflows on the respective transaction being hedged. Any hedge ineffectiveness is also recognized in earnings.

Table of Content

As of September 30, 2012, we have the following notional contract volumes (stated in barrels) related to outstanding swap contracts serving as cash flow hedges against price risk on forecasted purchases of crude oil and sales of refined products:

Commodity Price Swaps	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity	
		2012	2013
WTI crude oil - long	13,351,000	5,336,000	8,015,000
Ultra-low sulfur diesel - short	10,143,000	2,668,000	7,475,000
Conventional unleaded gasoline - short	3,208,000	2,668,000	540,000

We also have swap contracts that serve as economic hedges to fix our purchase price on forecasted crude oil, natural gas and butane purchases, and to lock in the spread between WCS and WTI crude oil on forecasted purchases. Also, we have NYMEX futures contracts to lock in prices on forecasted sales and purchases of inventory. These contracts are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to income.

As of September 30, 2012, we have the following notional contract volumes related to our outstanding swap contracts serving as economic hedges:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity		Unit of Measure
		2012	2013	
Commodity price swap (natural gas) - long	3,312,000	3,312,000	—	MMBTU
Commodity price swap (WCS spread) - long	6,117,500	460,000	5,657,500	Barrels
Commodity price swap (WTI) - short	150,000	—	150,000	Barrels
Commodity price swap (gasoline) - short	630,000	150,000	480,000	Barrels
NYMEX futures (WTI) - long	234,000	—	234,000	Barrels
NYMEX futures (WTI)- short	2,206,000	1,856,000	350,000	Barrels

Interest Rate Risk Management

HEP uses interest rate swaps to manage its exposure to interest rate risk.

As of September 30, 2012, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on \$305.0 million in credit agreement advances. The first interest rate swap effectively converts \$155.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of September 30, 2012, which equaled an effective interest rate of 2.99%. This swap matures in February 2016. In August 2012, HEP entered into two similar interest rate swaps with identical terms which convert \$150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of September 30, 2012, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017.

Publicly available information is reviewed on the counterparties in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the swap contracts. These counterparties are large financial institutions. We have not experienced, nor do we expect to experience, any difficulty in the counterparties

Edgar Filing: HollyFrontier Corp - Form 10-Q

honoring their commitments.

The market risk inherent in our fixed-rate debt and positions is the potential change arising from increases or decreases in interest rates as discussed below.

Table of Content

For the fixed rate HollyFrontier Senior Notes and HEP Senior Notes, changes in interest rates will generally affect fair value of the debt, but not our earnings or cash flows. The outstanding principal, estimated fair value and estimated change in fair value (assuming a hypothetical 10% change in the yield-to-maturity rates) for these debt instruments as of September 30, 2012 is presented below:

	Outstanding Principal (In thousands)	Estimated Fair Value	Estimated Change in Fair Value
HollyFrontier Senior Notes	\$436,812	\$475,977	\$13,215
HEP Senior Notes	\$450,000	\$473,625	\$16,309

For the variable rate HEP Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At September 30, 2012, outstanding borrowings under the HEP Credit Agreement were \$431.0 million. By means of its cash flow hedges, HEP has effectively converted the variable rate on \$305.0 million of outstanding principal to a weighted average fixed rate of 2.87%.

At September 30, 2012, cash and cash equivalents included investments in investment grade, highly liquid investments with maturities of three months or less at the time of purchase and hence the interest rate market risk implicit in these cash investments is low. Due to the short-term nature of our cash and cash equivalents, a hypothetical 10% increase in interest rates would not have a material effect on the fair market value of our portfolio. Since we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected by the effect of a sudden change in market interest rates on our investment portfolio.

Our operations are subject to normal hazards of petroleum processing operations, including fire, explosion and weather-related perils. We maintain various insurance coverages, including business interruption insurance, subject to certain deductibles. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

We have a risk management oversight committee that is made up of members from our senior management. This committee oversees our risk enterprise program, monitors our risk environment and provides direction for activities to mitigate identified risks that may adversely affect the achievement of our goals.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Risk Management” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles

Reconciliations of earnings before interest, taxes, depreciation and amortization (“EBITDA”) to amounts reported under generally accepted accounting principles in financial statements.

Earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, is calculated as net income attributable to HollyFrontier 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 GAAP; 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

Edgar Filing: HollyFrontier Corp - Form 10-Q

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.

52

Table of Content

Set forth below is our calculation of EBITDA.

	Three Months Ended September 30, 2012 (In thousands)	Nine Months Ended September 30, 2012 (In thousands)	Nine Months Ended September 30, 2011 (In thousands)
Net income attributable to HollyFrontier stockholders	\$600,373	\$523,088	\$1,335,568
Add income tax provision	349,622	304,758	465,730
Add interest expense	21,103	25,074	81,360
Subtract interest income	(2,219)	(204)	(3,360)
Add depreciation and amortization	65,112	43,240	178,162
EBITDA	\$1,033,991	\$895,956	\$2,367,476
			\$1,427,652

Reconciliations of refinery operating information (non-GAAP performance measures) to amounts reported under generally accepted accounting principles in financial statements.

Refinery gross margin and net operating margin are non-GAAP performance measures that are used by our management and others to compare our refining performance to that of other companies in our industry. We believe these margin measures are helpful to investors in evaluating our refining performance on a relative and absolute basis.

Refinery gross margin per barrel is the difference between average net sales price and average cost of products per barrel of produced refined products. Net operating margin per barrel is the difference between refinery gross margin and refinery operating expenses per barrel of produced refined products. These two margins do not include the effect of depreciation and amortization. Each of these component performance measures can be reconciled directly to our consolidated statements of income.

Other companies in our industry may not calculate these performance measures in the same manner.

Refinery Gross and Net Operating Margins

Below are reconciliations to our consolidated statements of income for (i) net sales, cost of products and operating expenses, in each case averaged per produced barrel sold, and (ii) net operating margin and refinery gross margin. Due to rounding of reported numbers, some amounts may not calculate exactly.

Reconciliations of refined product sales from produced products sold to total sales and other revenues

	Three Months Ended September 30, 2012 (Dollars in thousands, except per barrel amounts)	Nine Months Ended September 30, 2012 (Dollars in thousands, except per barrel amounts)	Nine Months Ended September 30, 2011 (Dollars in thousands, except per barrel amounts)
Consolidated			
Average sales price per produced barrel sold	\$121.66	\$121.76	\$120.48
Times sales of produced refined products sold (BPD)	433,930	435,110	426,150
Times number of days in period	92	92	274
Refined product sales from produced products sold	\$4,856,857	\$4,874,067	\$14,067,859
Total refined product sales	\$4,856,857	\$4,874,067	\$14,067,859
Add refined product sales from purchased products and rounding ⁽¹⁾	100,674	127,520	376,813
Total refined product sales	4,957,531	5,001,587	9,967,502

Edgar Filing: HollyFrontier Corp - Form 10-Q

Add direct sales of excess crude oil ⁽²⁾	187,196	148,989	378,036	422,890
Add other refining segment revenue ⁽³⁾	47,922	14,277	85,141	42,328
Total refining segment revenue	5,192,649	5,164,853	14,907,849	10,432,720
Add HEP segment sales and other revenues	72,496	49,131	207,250	144,916
Add corporate and other revenues	352	299	912	1,100
Subtract consolidations and eliminations	(60,699)	(40,885)	(172,794)	(111,620)
Sales and other revenues	\$5,204,798	\$5,173,398	\$14,943,217	\$10,467,116

Table of Content

Reconciliation of average cost of products per produced barrel sold to total cost of products sold

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Dollars in thousands, except per barrel amounts)		
Consolidated			
Average cost of products per produced barrel sold	\$91.11	\$93.66	\$95.28
Times sales of produced refined products sold (BPD)	433,930	435,110	426,150
Times number of days in period	92	92	274
Cost of products for produced products sold	\$3,637,253	\$3,749,221	\$11,125,379
Total cost of products for produced products sold	\$3,637,253	\$3,749,221	\$7,829,852
Add refined product costs from purchased products and rounding ⁽¹⁾	100,078	128,857	377,476
Total cost of refined products sold	3,737,331	3,878,078	11,502,855
Add crude oil cost of direct sales of excess crude oil ⁽²⁾	182,252	147,223	367,795
Add other refining segment cost of products sold ⁽⁴⁾	38,743	4,696	67,185
Total refining segment cost of products sold	3,958,326	4,029,997	11,937,835
Subtract consolidations and eliminations	(59,590)	(40,070)	(170,418)
Costs of products sold (exclusive of depreciation and amortization)	\$3,898,736	\$3,989,927	\$11,767,417
			\$8,421,639

Reconciliation of average refinery operating expenses per produced barrel sold to total operating expenses

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Dollars in thousands, except per barrel amounts)		
Consolidated			
Average refinery operating expenses per produced barrel sold	\$5.11	\$5.07	\$5.21
Times sales of produced refined products sold (BPD)	433,930	435,110	426,150
Times number of days in period	92	92	274
Refinery operating expenses for produced products sold	\$203,999	\$202,953	\$608,346
Total refinery operating expenses per produced products sold	\$203,999	\$202,953	\$608,346
Add other refining segment operating expenses and rounding ⁽⁵⁾	8,848	10,080	26,933
Total refining segment operating expenses	212,847	213,033	635,279
Add HEP segment operating expenses	21,324	15,015	61,799
Add corporate and other costs	42	291	1,302
Subtract consolidations and eliminations	(354)	(456)	(168)
Operating expenses (exclusive of depreciation and amortization)	\$233,859	\$227,883	\$698,212
			\$501,971

Table of Content

Reconciliation of net operating margin per barrel to refinery gross margin per barrel to total sales and other revenues

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(Dollars in thousands, except per barrel amounts)		
Consolidated			
Net operating margin per barrel	\$25.44	\$23.03	\$19.99
Add average refinery operating expenses per produced barrel	5.11	5.07	5.21
Refinery gross margin per barrel	30.55	28.10	25.20
Add average cost of products per produced barrel sold	91.11	93.66	95.28
Average sales price per produced barrel sold	\$121.66	\$121.76	\$120.48
Times sales of produced refined products sold (BPD)	433,930	435,110	426,150
Times number of days in period	92	92	274
Refined product sales from produced products sold	\$4,856,857	\$4,874,067	\$14,067,859
Total refined product sales from produced products sold	\$4,856,857	\$4,874,067	\$14,067,859
Add refined product sales from purchased products and rounding ⁽¹⁾	100,674	127,520	376,813
Total refined product sales	4,957,531	5,001,587	14,444,672
Add direct sales of excess crude oil ⁽²⁾	187,196	148,989	378,036
Add other refining segment revenue ⁽³⁾	47,922	14,277	85,141
Total refining segment revenue	5,192,649	5,164,853	14,907,849
Add HEP segment sales and other revenues	72,496	49,131	207,250
Add corporate and other revenues	352	299	912
Subtract consolidations and eliminations	(60,699)	(40,885)	(172,794)
Sales and other revenues	\$5,204,798	\$5,173,398	\$14,943,217
			\$10,467,116

(1) We purchase finished products when opportunities arise that provide a profit on the sale of such products, or to meet delivery commitments.

We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded (2) as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold.

Additionally, at times we enter into buy/sell exchanges of crude oil with certain parties to facilitate the delivery of quantities to certain locations that are netted at carryover cost.

(3) Other refining segment revenue includes the incremental revenues associated with NK Asphalt and miscellaneous revenue.

(4) Other refining segment cost of products sold includes the incremental cost of products for NK Asphalt and miscellaneous costs.

(5) Other refining segment operating expenses include the marketing costs associated with our refining segment and the operating expenses of NK Asphalt.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), our

Edgar Filing: HollyFrontier Corp - Form 10-Q

disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2012 at the reasonable assurance level.

Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Content

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Commitment and Contingency Reserves

We periodically establish reserves for certain legal proceedings. The establishment of a reserve involves an estimation process that includes the advice of legal counsel and subjective judgment of management. While management believes these reserves to be adequate, future changes in the facts and circumstances could result in the actual liability exceeding the estimated ranges of loss and amounts accrued.

While the outcome and impact on us cannot be predicted with certainty, management believes that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on our consolidated financial position or cash flow. Operating results, however, could be significantly impacted in the reporting periods in which such matters are resolved.

New Mexico OHSB Complaint – Navajo Tank Fire

On March 3, 2010, the New Mexico Occupational Health and Safety Bureau (“OHSB”), the New Mexico regulatory agency responsible for enforcing certain state occupational health and safety regulations, which are identical to Federal Occupational Safety and Health Administration (“OSHA”) regulations, commenced an inspection in relation to the tank fire that took place on March 2, 2010 at the Navajo facility in Artesia, New Mexico. On August 31, 2010, OHSB issued two citations to Navajo, alleging 10 willful violations and one serious violation of various construction safety standards. OHSB proposed penalties in the amount of \$0.7 million. Navajo filed a notice of contest, challenging the citations. The citations have been settled pursuant to a settlement agreement signed on September 4, 2012. The settlement provides for (a) withdrawal of six willful citations, (b) reclassification of four willful citations as serious, (c) acceptance of one citation that was originally classified as serious, and (d) Navajo's payment of a \$400,000 penalty. The settlement became final on September 26, 2012.

Propane Pit - Woods Cross

In December 2011, the EPA conducted an inspection at Woods Cross and identified some alleged violations of the Chemical Accident Prevention and Risk Management Plan (“RMP”) requirements set forth in section 112(r)(7) of the Federal Clean Air Act and Part 68 of Title 40 of the Code of Federal Regulations. Following extended negotiations, Holly Refining & Marketing – Woods Cross LLC and the EPA on October 12, 2012 agreed to resolve this matter with a civil penalty of \$115,000, subject to the parties' agreement on the final terms of two documents – an Administrative Compliance Order on Consent (“ACOC”) specifying the details of the closure of the Frozen Earth Propane Storage Pit and a Combined Complaint and Consent Agreement (“CCCA”) detailing the EPA allegations and resolution of those allegations. Neither of these agreements will require Holly Refining & Marketing – Woods Cross LLC to admit or deny the EPA's allegations. Negotiations with the EPA on the terms of the ACOC and CCCA are continuing.

Additional Environmental Matters

We are reporting the following proceedings to comply with SEC regulations which require us to disclose proceedings arising under federal, state or local provisions regulating the discharge of materials into the environment or protecting the environment if we reasonably believe that such proceedings may result in monetary sanctions of \$100,000 or more. Our respective subsidiaries have or will develop corrective action plans regarding these disclosures that will be implemented in consultation with the respective federal and state agencies. It is not possible to predict the ultimate outcome of these proceedings, although none are currently expected to have a material effect on our consolidated financial position.

Edgar Filing: HollyFrontier Corp - Form 10-Q

Frontier Refining LLC (“FR”), our wholly-owned subsidiary, has undertaken environmental audits at the Cheyenne Refinery regarding compliance with federal and state air quality requirements. By letters dated October 5, 2012, and November 7, 2012, FR submitted reports to the EPA voluntarily disclosing non-compliance with certain emission limitations, reporting, and other provisions of a 2009 federal consent decree. By letter dated October 31, 2012, FR submitted a report to the Wyoming Department of Environmental Quality voluntarily disclosing non-compliance with certain notification, reporting, and other provisions of the refinery's state air permit and regulatory requirements.

Ethanol Management Company LLC (“EMC”), our wholly-owned subsidiary, has undertaken an environmental audit at the terminal located in Henderson, Colorado regarding compliance with the hazardous waste requirements administered by the Colorado Department of Public Health and Environment (“CDPHE”). By letter dated November 7, 2012, EMC notified the CDPHE that wastewater held in spill tanks at the terminal was stored in the tank longer than permissible under the hazardous waste regulations.

Table of Content

Between November 2010 and February 2012, certain of our subsidiaries have submitted ten reports to the EPA voluntarily disclosing non-compliance with fuels regulations at the Cheyenne, El Dorado, Navajo, Tulsa and Woods Cross refineries and at the Henderson, Colorado and Cedar City, Utah terminals. The EPA has requested additional information regarding certain of these reports, and our subsidiaries have complied with all requests received to date.

Other

We are a party to various other litigation and legal proceedings that 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.

Item 1A. Risk Factors

There have been no material changes in our risk factors as previously disclosed in Part 1, "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in our 2011 Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this quarterly report and in our 2011 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Common Stock Repurchases Made in the Quarter

Under our common stock repurchase programs, repurchases are being made from time to time in the open market or privately negotiated transactions based on market conditions, securities law limitations and other factors. The following table includes repurchases made under these programs during the third quarter of 2012.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased under Approved Stock Repurchase Programs	Maximum Dollar Value of Shares Yet to be Purchased under Approved Stock Repurchase Programs
July 2012	—	\$—	—	\$510,228,860
August 2012	—	\$—	—	\$510,228,860
September 2012 ⁽¹⁾	13,600	\$39.39	—	\$510,228,860
Total for July to September 2012	13,600		—	

(1) The September 2012 shares repurchased were not purchased under our approved stock repurchase program, but rather pursuant to separate authority from our Board of Directors.

Item 6. Exhibits

The Exhibit Index on page 59 of this Quarterly Report on Form 10-Q lists the exhibits that are filed or furnished, as applicable, as part of the Quarterly Report on Form 10-Q.

Table of Content

SIGNATURES

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

HOLLYFRONTIER CORPORATION
(Registrant)

Date: November 7, 2012

/s/ Douglas S. Aron
Douglas S. Aron
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: November 7, 2012

/s/ J. W. Gann, Jr.
J. W. Gann, Jr.
Vice President and Controller
(Principal Accounting Officer)

Table of Content

Exhibit Index

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of HollyFrontier Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report filed July 8, 2011, File No. 1-03876).
3.2	Amended and Restated By-Laws of HollyFrontier Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report filed November 21, 2011, File No. 1-03876).
4.1+	Fourth Supplemental Indenture, dated August 6, 2012, among HEP UNEV Holdings LLC, HEP UNEV Pipeline LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other guarantors party thereto and U.S. Bank National Association to the Indenture, dated March 10, 2010, among Holly Energy Partners, L.P., Holly Energy Finance Corp., each of the guarantors party thereto and U.S. Bank National Association.
4.2+	First Supplemental Indenture, dated August 6, 2012, among HEP UNEV Holdings LLC, HEP UNEV Pipeline LLC, Holly Energy Partners, L.P., Holly Energy Finance Corp., the other guarantors party thereto and U.S. Bank National Association to the Indenture, dated March 12, 2012, among Holly Energy Partners, L.P., Holly Energy Finance Corp., each of the guarantors party thereto and U.S. Bank National Association.
10.1	LLC Interest Purchase Agreement, dated July 12, 2012, by and among HollyFrontier Corporation, Holly Energy Partners, L.P. and HEP UNEV Holdings LLC (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2012, File No. 1-03876).
10.2	Seventh Amended and Restated Omnibus Agreement, dated July 12, 2012, by and among HollyFrontier Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2012, File No. 1-03876).
10.3	Limited Partial Waiver of Incentive Distribution Rights under the First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P., dated as of July 12, 2012 (incorporated by reference to Exhibit 10.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2012, File No. 1-03876).
10.4	Amended and Restated Limited Liability Company Agreement of HEP UNEV Holdings LLC, dated July 12, 2012, by and among HEP UNEV Holdings LLC, HollyFrontier Holdings LLC and Holly Energy Partners, L.P. (incorporated by reference to Exhibit 10.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2012, File No. 1-03876).
10.5	Termination of Option Agreement, dated July 12, 2012, by and among HollyFrontier Corporation, HEP UNEV Pipeline LLC (f/k/a Holly UNEV Pipeline Company), Navajo Pipeline Co., L.P., Holly Logistic Services, L.L.C., HEP Logistics Holdings, L.P., Holly Energy Partners, L.P., HEP Logistics GP, L.L.C. and Holly Energy Partners - Operating, L.P. (incorporated by reference to Exhibit 10.6 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2012, File No. 1-03876).
31.1+	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

31.2+ Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

32.1++ Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

32.2++ Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

101* The following financial information from HollyFrontier Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

+ Filed herewith.

++ Furnished herewith.

* Furnished electronically herewith.