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HOLLY CORP
Form 10-Q/A
September 09, 2003

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

(Mark One)

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

For the quarterly period ended April 30, 2003

OR

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

For the transition period from _____ to _____

Commission File Number 1-3876

HOLLY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

75-1056913

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

100 Crescent Court, Suite 1600
Dallas, Texas

75201-6927

(Address of principal executive offices)

(Zip Code)

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

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

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

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

15,502,028 shares of Common Stock, par value \$.01 per share, were outstanding on
June 9, 2003.

HOLLY CORPORATION
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Holly Corporation is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended April 30, 2003, originally filed on June 12, 2003, in response to comments received from the Securities and Exchange Commission. This amendment to the original Form 10-Q amends and restates the original Form 10-Q. Holly Corporation has not updated the disclosure in this amendment to speak as of a later date. All information contained in this amendment and the original Form 10-Q is subject to updating and supplementing as provided in the period reports filed subsequent to the original filing date with the Securities and Exchange Commission.

PART I

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q/A contains certain "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts included

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in this Form 10-Q/A, including without limitation those under "Results of Operations," "Liquidity and Capital Resources" and "Additional Factors that May Affect Future Results" (including "Risk Management") regarding the Company's financial position and results of operations in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I and those in Item 1 "Legal Proceedings" in Part II, are forward-looking statements. Such statements are subject to risks and uncertainties, including but not limited to risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in the Company's 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 or shutdowns in refinery operations or pipelines, effects of governmental regulations and policies, the availability and cost of financing to the Company, the effectiveness of the Company's capital investments and marketing strategies, the Company's efficiency in carrying out construction projects, the successful integration of the Woods Cross refinery, the completion of the proposed transaction with Frontier Oil Corporation, the possibility of terrorist attacks and the consequences of any such attacks, and general economic conditions. Should one or more of these risks or uncertainties, among others as set forth in this Form 10-Q/A, materialize, actual results may vary materially from those estimated, anticipated or projected. Although the Company believes that the expectations reflected by such forward-looking statements are reasonable based on information currently available to the Company, no assurances can be given that such expectations will prove to have been correct. Cautionary statements identifying important factors that could cause actual results to differ materially from the Company's expectations are set forth in this Form 10-Q/A, including without limitation in conjunction with the forward-looking statements included in this Form 10-Q/A that are referred to above. This summary discussion of risks and uncertainties that may cause actual results to differ from those indicated in forward-looking statements should be read in conjunction with the discussion under the heading "Additional Factors That May Affect Future Results" included in Item 7 of the Company's Annual Report on Form 10-K/A for the fiscal year ended July 31, 2002 and in conjunction with the discussion in this Form 10-Q/A in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Liquidity and Capital Resources" and "Additional Factors That May Affect Future Results." All forward-looking statements included in this Quarterly Report on Form 10-Q/A and all subsequent oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements. The forward-looking statements speak only as of the date made, other than as required by law, and the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOLLY CORPORATION
CONSOLIDATED BALANCE SHEET
Unaudited

APRIL 30,
2003

(In thousands, exc

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ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....		\$ 38,050
Accounts receivable: Product.....		46,754
Crude oil resales.....		97,418

		144,172
Inventories: Crude oil and refined products.....		54,853
Materials and supplies.....		10,483

		65,336
Income taxes receivable.....		-
Prepayments and other.....		19,464

TOTAL CURRENT ASSETS		267,022
Properties, plants and equipment, at cost.....		439,586
Less accumulated depreciation, depletion and amortization.....		(216,477)

		223,109
Investments in and advances to joint ventures.....		15,214
Other assets: Prepaid transportation.....		25,000
Refinery acquisition deposit.....		2,500
Other, net.....		9,054

		36,554

TOTAL ASSETS.....		\$ 541,899
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable.....		\$ 196,831
Accrued liabilities.....		26,888
Income taxes payable.....		7,272
Current maturities of long-term debt.....		8,571

TOTAL CURRENT LIABILITIES.....		239,562
Deferred income taxes.....		32,912
Long-term debt, less current maturities.....		17,143
Commitments and contingencies		-
STOCKHOLDERS' EQUITY		
Preferred stock, \$1.00 par value - 1,000,000 shares authorized; none issued.....		-
Common stock, \$.01 par value - 20,000,000 shares authorized; 16,873,896 and 16,759,396 shares issued as of April 30, 2003 and July 31, 2002.....		169
Additional capital.....		15,607
Retained earnings.....		249,005

		264,781
Common stock held in treasury, at cost - 1,371,868 and 1,197,968 shares as of April 30, 2003 and July 31, 2002.....		(12,499)

TOTAL STOCKHOLDERS' EQUITY.....		252,282

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....		\$ 541,899
		=====

See accompanying notes.

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HOLLY CORPORATION
CONSOLIDATED STATEMENT OF INCOME
Unaudited

	THREE MONTHS ENDED APRIL 30,	
	----- 2003 -----	2002 ----- -----
	(In thousands, except	
SALES AND OTHER REVENUES	\$ 312,180	\$ 210,327
OPERATING COSTS AND EXPENSES		
Cost of products sold (exclusive of depreciation,depletion, and amortization)	255,376	165,350
Operating expenses (exclusive of depreciation,depletion, and amortization)	28,439	23,717
Selling, general and administrative expenses (exclusive of depreciation,depletion, and amortization)	7,057	5,452
Depreciation, depletion and amortization	8,979	6,884
Exploration expenses, including dry holes	233	282
	-----	-----
TOTAL OPERATING COSTS AND EXPENSES	300,084	201,685
	-----	-----
GAIN ON SALE OF ASSETS.....	16,447	-
INCOME FROM OPERATIONS	28,543	8,642
OTHER INCOME (EXPENSE)		
Equity in earnings (loss) of joint ventures	(690)	1,571
Interest income	172	217
Interest expense	(135)	(622)
Reparations payment received	15,226	-
Gain on sale of equity securities	-	-
	-----	-----
	14,573	1,166
	-----	-----
INCOME BEFORE INCOME TAXES.....	43,116	9,808
Income tax provision		
Current	11,969	2,334
Deferred	4,446	1,275
	-----	-----
	16,415	3,609
	-----	-----
NET INCOME	\$ 26,701	\$ 6,199
	=====	=====
NET INCOME PER COMMON SHARE - BASIC	\$ 1.72	\$ 0.40
	=====	=====
NET INCOME PER COMMON SHARE - DILUTED	\$ 1.67	\$ 0.39
	=====	=====

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CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.11	\$ 0.10
	=====	=====
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	15,493	15,581
Diluted	15,986	16,016

See accompanying notes.

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HOLLY CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

	NINE MONTHS APRIL 30	

	2003	

	(In thousa	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 30,352	
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, depletion and amortization	23,336	
Deferred income taxes	3,779	
Dry hole costs and leasehold impairment	-	
Equity in earnings of joint ventures	86	
Gain on sale of assets	(16,447)	
(Increase) decrease in current assets		
Accounts receivable	(8,777)	
Inventories	(20,028)	
Income taxes receivable	8,699	
Prepayments and other	(1,584)	
Increase (decrease) in current liabilities		
Accounts payable	11,773	
Accrued liabilities	1,546	
Income taxes payable	7,272	
Turnaround expenditures	(4,704)	
Prepaid transportation	(25,000)	
Other, net	(2,441)	

NET CASH PROVIDED FOR OPERATING ACTIVITIES	7,862	
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt	(8,571)	
Debt issuance costs	(635)	
Issuance of common stock upon exercise of options.....	1,595	
Purchase of treasury stock	(3,104)	
Cash dividends	(5,117)	

NET CASH USED FOR FINANCING ACTIVITIES.....	(15,832)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to properties, plants and equipment	(47,556)	
Refinery acquisition deposit	(2,500)	

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Investments and advances to joint ventures	(78)
Distributions from joint ventures	524
Proceeds from the sale of partial interest in joint venture.....	-
Proceeds from sale of marketable equity securities	-
Proceeds from the sale of pipeline assets	24,000

NET CASH USED FOR INVESTING ACTIVITIES	(25,610)

CASH AND CASH EQUIVALENTS	
DECREASE FOR THE PERIOD	(33,580)
Beginning of year	71,630

END OF PERIOD	\$ 38,050
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during period for	
Interest	\$ 1,859
Income taxes	\$ 6,365

See accompanying notes.

HOLLY CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	THREE MONTHS EN APRIL 30,	
	2003	2002
	-----	-----
NET INCOME	\$ 26,701	\$
Other comprehensive income (loss)		
Reclassification adjustment to net income on sale of equity securities..	-	
Derivative instruments qualifying as cash flow hedging instruments		
Change in fair value of derivative instruments	102	
Reclassification adjustment into net income	108	
	-----	-----
Total income on cash flow hedges	210	
	-----	-----
Other comprehensive income before income taxes	210	
Income tax expense	80	
	-----	-----
Other comprehensive income	130	
	-----	-----
TOTAL COMPREHENSIVE INCOME	\$ 26,831	\$
	=====	=====

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note A - Presentation of Financial Statements

In the opinion of the Company, the accompanying consolidated financial statements, which have not been audited by independent accountants, reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of April 30, 2003, the consolidated results of operations and comprehensive income for the three months and nine months ended April 30, 2003 and 2002, and consolidated cash flows for the nine months ended April 30, 2003 and 2002.

Certain notes and other information have been condensed or omitted, therefore, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K/A for the fiscal year ended July 31, 2002.

References herein to the "Company" are for convenience of presentation and may include obligations, commitments or contingencies that pertain solely to one or more affiliates of the Company. Results of operations for the first nine months of fiscal 2003 are not necessarily indicative of the results to be expected for the full year.

Note B - New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 142 "Goodwill and Other Intangible Assets" which changes how goodwill and other intangible assets are accounted for subsequent to their initial recognition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, with early adoption permitted; however, all goodwill and intangible assets acquired after June 30, 2001, are immediately subject to the provisions of this statement. The Company adopted the standard effective August 1, 2002 and there was no material effect on its financial condition, results of operations, or cash flows.

In June 2001, FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" which requires that the fair value for an asset retirement obligation be capitalized as part of the carrying amount of the long-lived asset if a reasonable estimate of fair value can be made. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. The Company adopted the standard effective August 1, 2002 and there was no material effect on the Company's financial condition, results of operations, or cash flows.

In August 2001, FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", but carries over the key guidance from SFAS No. 121 in establishing the framework for the recognition and measurement of long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early adoption permitted. The Company adopted the standard effective August 1, 2002 and there was no material effect on its financial condition, results of operations, or cash flows.

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In June 2002, FASB issued SFAS No. 146 "Accounting for Certain Costs Associated with Exit or Disposal Activities" which nullifies Emerging Issues Task Force ("EITF") 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes fair value as the objective for initial measurement of liabilities. This differs from EITF 94-3 which stated that liabilities for exit costs were to be recognized as of the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted SFAS No. 146 on January 1, 2003, and the standard had no effect on its financial condition, results of operations, or cash flows.

In December 2002, FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure", an amendment of SFAS No. 123. This statement provides alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148's amendment of the disclosure requirements is effective for interim periods beginning after December 15, 2002. SFAS 148's amendment of the transition and annual disclosure requirements of SFAS 123 are effective for fiscal years ending after December 15, 2002. See Note D to Consolidated Financial Statements for effect of this standard on the Company's financial condition, results of operations, or cash flows.

In May 2003, FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement will result in a more complete depiction of an entity's liabilities and equity and will, thereby, assist investors and creditors in assessing the amount, timing, and likelihood of potential future cash outflows and equity share issuances. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company expects that the standard will have no effect on its financial condition, results of operations, or cash flows.

The American Institute of Certified Public Accountants has issued an Exposure Draft for a Proposed Statement of Position, "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" which would require major maintenance activities to be expensed as costs are incurred. As of April 30, 2003, the Company had approximately \$11.6 million of deferred maintenance costs, all relating to refinery turnarounds in prior periods, which are being amortized over various benefit periods. The current monthly amortization is \$782,000. If this proposed Statement of Position had been adopted in its current form, as of April 30, 2003, the Company would have been required to expense \$11.6 million of deferred maintenance costs and would be required to expense all future turnaround costs as incurred.

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Note C - Earnings Per Share

Basic income per share is calculated as net income divided by average number of shares of common stock outstanding. Diluted income per share assumes, when dilutive, issuance of the net incremental shares from stock options. In 2000 options to purchase 50,000 shares of common stock were not included in computing diluted income per share because their effects were antidilutive. The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations for net income:

	THREE MONTHS ENDED APRIL 30,		2001
	2003	2002	
	(In thousands, except per share)		
Net income.....	\$ 26,701	\$ 6,199	\$ 10,000
Average number of shares of common stock outstanding...	15,493	15,581	
Effect of dilutive stock options.....	493	435	
Average number of shares of common stock outstanding assuming dilution.....	15,986	16,016	
Income per share - basic.....	\$ 1.72	\$ 0.40	\$ 0.63
Income per share - diluted.....	\$ 1.67	\$ 0.39	\$ 0.63

Note D - Stock-based Compensation

The Company has stock option plans under which certain officers and employees have been granted options. All the options have been granted at prices equal to the market value of the shares at the time of the grant and expire on the tenth anniversary of the grant date. The Company's stock-based compensation is measured in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of Employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock based Employee compensation.

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	THREE MONTHS ENDED APRIL 2003,	
	----- 2003 -----	----- 2002 -----
	(In thousands, except	
Net income, as reported.....	\$ 26,701	\$ 6,199
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	113	113
Pro forma net income.....	\$ 26,588 =====	\$ 6,086 =====
Net income per share - basic		
As reported.....	\$ 1.72	\$ 0.40
Pro forma.....	\$ 1.72	\$ 0.39
Net income per share - diluted		
As reported.....	\$ 1.67	\$ 0.39
Pro forma.....	\$ 1.66	\$ 0.38

Note E - Investments in Joint Ventures

The Company currently has a 49% interest in NK Partners, a joint venture that manufactures and markets asphalt products from various terminals in Arizona and New Mexico. The Company accounts for earnings using the equity method. The Company's Navajo Refinery sells at market prices all of its produced asphalt to the joint venture. Sales to the joint venture during the three months ended April 30, 2003 and 2002 were \$5.9 million and \$4.9 million, respectively. Sales to the joint venture during the nine months ended April 30, 2003 and 2002 were \$18.5 million and \$14.8 million, respectively.

NK Asphalt Partners Joint Venture (Unaudited):

	THREE MONTHS ENDED APRIL 30,		NINE MONTH APRIL
	----- 2003 -----	----- 2002 -----	----- 2003 -----
	(In thousands)		(In thou
Sales (net).....	\$ 13,057 =====	\$ 14,259 =====	\$ 50,990 =====
Gross Profit.....	\$ 1,602 =====	\$ 4,962 =====	\$ 7,135 =====
Income (loss) from operations.....	\$ (1,065) =====	\$ 2,548 =====	\$ (381) =====
Net income (loss) before taxes.....	\$ (1,507) =====	\$ 2,136 =====	\$ (1,699) =====

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Note F - Debt

In May 2003, the Company amended its Revolving Credit Agreement with a group of banks led by Canadian Imperial Bank of Commerce and increased the commitment from \$75 million to \$100 million. The Company now has access to \$100 million of commitments that can be used for revolving credit loans and letters of credit. Previously the Company had access to \$75 million of commitments, of which only \$37.5 million could be used for revolving credit loans. The Company borrowed \$10 million under the Revolving Credit Agreement in the quarter ended April 30, 2003, all of which was paid back during the quarter. At April 30, 2003, the Company had letters of credit outstanding under the facility of \$12.7 million and had no borrowings outstanding.

Note G - Environmental

The Company expenses environmental costs if they relate to an existing condition caused by past operations and do not contribute to current or future revenue generations. Liabilities are recorded when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. Recoveries of environmental costs through insurance, indemnification arrangements or other sources are included in other assets to the extent such recoveries are considered probable. Consistent with our accounting policy, the Company recorded \$2.6 million for environmental remediation and cleanup obligations in the quarter ended April 30, 2003, which are included in Accrued liabilities on the Consolidated Balance Sheet. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Note H - Stockholders' Equity

On October 30, 2001, the Company announced plans to repurchase up to \$20 million of the Company's common stock. Such repurchases have been made from time to time in open market purchases or privately negotiated transactions, subject to price and availability. The repurchases have been financed with currently available corporate funds. During the nine months ended April 30, 2003, the Company repurchased 173,900 shares at a cost of approximately \$3.1 million or an average of \$17.85 per share. From inception of the plan through June 9, 2003, the Company has repurchased 272,400 shares at a cost of approximately \$4.7 million.

Note I - Derivative Instruments and Hedging Activities

In fiscal 2001, the Company entered into commodity price swaps and collar options to help manage the exposure to price volatility relating to forecasted purchases of natural gas from May 2001 through May 2002. These transactions were designated as cash flow hedges of forecasted purchases. During the nine months ended April 30, 2002, the Company marked the value of the outstanding hedges to fair value in accordance with SFAS No. 133 and included \$1.9 million of income in comprehensive income. Gains (losses) on the natural gas hedges were reclassified from comprehensive income to operating expenses through May 2002 when the forecasted transactions impacted earnings.

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The Company's profitability depends largely on the spread between market prices for refined products and market prices for crude oil. A substantial or prolonged reduction in this spread could have a significant negative effect on the Company's earnings, financial condition and cash flows.

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At times, the Company utilizes petroleum commodity futures contracts to minimize a portion of its exposure to price fluctuations associated with crude oil and refined products. In December 2002, the Company entered into cash flow hedges relating to certain forecasted transactions to buy crude oil and sell gasoline in March 2003. The purpose of the hedges is to help protect the Company from the risk that the refinery margin would decline with respect to the hedged crude oil and refined products. To effect the hedges, the Company entered into gasoline and crude oil futures transactions. During the quarter ended April 30, 2003, the Company marked the value of the outstanding hedges to fair value in accordance with SFAS No. 133 and included \$102,000 of gain in comprehensive income. In March 2003, as the forecasted transactions occurred, the Company reclassified \$108,000 of actual losses from comprehensive income to cost of sales. The ineffective portion of the hedges resulted in a \$32,000 gain that was also included in cost of sales. During the fiscal quarter ended April 30, 2003, the Company also entered into commodity derivative contracts to help protect refining margins that while an economic hedge, did not qualify for hedge accounting treatment. The Company realized a gain of \$302,000 which was included in cost of sales. As of April 30, 2003, there were no hedges outstanding.

Note J - Segment Information

The Company has two major business segments: Refining and Pipeline Transportation. The Refining segment involves the refining of crude oil and wholesale marketing of refined products, such as gasoline, diesel fuel and jet fuel, and includes the Company's Navajo Refinery and Montana Refinery. The petroleum products produced by the Refining segment are marketed in the southwestern United States, Montana and northern Mexico. Certain pipelines and terminals operate in conjunction with the Refining segment as part of the supply and distribution networks of the refineries. The Refining segment also includes the equity earnings from the Company's 49% interest in NK Asphalt Partners, which manufactures and markets asphalt and asphalt products in Arizona and New Mexico. Prior to March 2003, the Company's Pipeline Transportation segment included approximately 1,000 miles of pipeline assets in Texas and New Mexico. In March 2003, the Company sold the 400 mile Iatan crude oil gathering system located in West Texas to Plains Marketing L.P. Revenues of the Pipeline Transportation segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations. Pipeline Transportation segment revenues do not include any amount relating to pipeline transportation services provided for the Company's refining operations. The Pipeline Transportation segment also includes the equity earnings from the Company's 25% interest in Rio Grande Pipeline Company, which provides petroleum products transportation. Operations of the Company that are not included in the two reportable segments are included in Corporate and Other, which includes costs of Holly Corporation, the parent company, consisting primarily of general and administrative expenses and interest charges, as well as a small-scale oil and gas exploration and production program, and a small equity investment in retail gasoline stations and convenience stores.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K/A for the year ended July 31, 2002. The Company's reportable segments are strategic business units that offer different products and services.

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	REFINING -----	PIPELINE TRANSPORTATION -----	TOTAL FOR REPORTABLE SEGMENTS -----
(In thousands)			
THREE MONTHS ENDED APRIL 30, 2003			
Sales and other revenues.....	\$ 307,715	\$ 3,742	\$ 311,457
Depreciation and amortization.....	\$ 8,262	\$ 220	\$ 8,482
Income (loss) from operations.....	\$ 14,446	\$ 17,917	\$ 32,363
Income (loss) before income taxes.....	\$ 28,742	\$ 18,077	\$ 46,819
THREE MONTHS ENDED APRIL 30, 2002			
Sales and other revenues.....	\$ 205,692	\$ 4,294	\$ 209,986
Depreciation and amortization.....	\$ 6,381	\$ 327	\$ 6,708
Income (loss) from operations.....	\$ 8,409	\$ 2,593	\$ 11,002
Income (loss) before income taxes.....	\$ 9,339	\$ 3,199	\$ 12,538
NINE MONTHS ENDED APRIL 30, 2003			
Sales and other revenues.....	\$ 842,926	\$ 13,742	\$ 856,668
Depreciation and amortization.....	\$ 20,869	\$ 935	\$ 21,804
Income (loss) from operations.....	\$ 19,933	\$ 23,743	\$ 43,676
Income (loss) before income taxes.....	\$ 33,434	\$ 24,922	\$ 58,356
NINE MONTHS ENDED APRIL 30, 2002			
Sales and other revenues.....	\$ 620,367	\$ 13,395	\$ 633,762
Depreciation and amortization.....	\$ 18,372	\$ 1,037	\$ 19,409
Income (loss) from operations.....	\$ 34,146	\$ 7,579	\$ 41,725
Income (loss) before income taxes.....	\$ 39,342	\$ 8,816	\$ 48,158

Note K - Contingencies

In November 2002, the Company settled by agreement litigation brought in August 1998 by Longhorn Partners Pipeline, L.P. ("Longhorn Partners") against the Company in a state court in El Paso, Texas and litigation brought in August 2002 by the Company against Longhorn Partners and related parties in a state court in Carlsbad, New Mexico. Under the settlement agreement, which was developed in voluntary mediation, in November 2002, the Company paid \$25 million to Longhorn Partners as a prepayment for the transportation of 7,000 barrels per day of refined products from the Gulf Coast to El Paso for a period of up to 6 years from the date of the Longhorn Pipeline's start-up. Longhorn Partners has also issued to the Company an unsecured \$25 million promissory note, subordinated to certain other indebtedness, that would become payable with interest in the event that the Longhorn Pipeline does not begin operations by July 1, 2004, or to the extent Longhorn Partners is unable to provide the Company the full amount of the agreed transportation services. In the unaudited consolidated balance sheet at April 30, 2003, the \$25 million settlement is reflected in Assets as "Other assets - Prepaid transportation."

In September 2002, the Federal Energy Regulatory Commission ("FERC") issued an order in proceedings brought by the Company and other parties against Kinder Morgan's SFPP, L.P. ("SFPP") relating to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. The Company is one of several refiners that regularly utilize an SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona. The September 2002 order resolved most remaining issues relating to SFPP's

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tariffs on the pipelines to points in Arizona, including issues related to payments made by the Company for shipments of petroleum products from El Paso, Texas to Tucson and Phoenix, Arizona principally for the period from 1993 through July 2000. On January 29, 2003, the FERC issued an order accepting most of the computations prepared by SFPP pursuant to the September 2002 order and requiring a change in one item. In April 2003, the Company received \$15.2 million from Kinder Morgan as payment for the reparations ordered by FERC and such amount has been included as reparations payment received in net income for the fiscal quarter ended April 30, 2003. In June 2003 the FERC issued a further order requiring an adjustment in the computations which is expected to result in a small additional payment to the Company. The final FERC decision in this case is subject to judicial review by the Court of Appeals for the District of Columbia Circuit. In the event SFPP prevails in whole or in part in such judicial review, the reparations actually owed may be less than the \$15.2 million and in that event part or all of the \$15.2 million received by the Company in April 2003 would have to be refunded. At the date of this report, it is not possible to predict the result of judicial review proceedings on this matter in the Court of Appeals for the District of Columbia Circuit.

Note L - Sale of Pipeline Assets

On March 3, 2003, the Company sold its Iatan crude oil gathering pipeline system located in West Texas to Plains Marketing L.P. for a purchase price of \$24 million in cash. In connection with the transaction, the Company and Plains entered into a six and one-half year agreement which commits the Company to transport any crude oil purchased by the Company in the relevant area on the Iatan system at an agreed upon tariff. The sale resulted in a pre-tax gain for the Company of approximately \$16.4 million.

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Note M - Frontier Oil Corporation and Holly Corporation Merger Agreement

On March 31, 2003, Frontier and the Company announced an agreement pursuant to which the two companies will merge. The merged company will be called Frontier Oil Corporation and will be headquartered in Houston, Texas. Following the merger, the combined company will own five refineries with refining capacity in excess of 260,000 barrels-per-day including several highly complex, niche refineries. Terms of the deal provide for the Company's stockholders to receive one share of Frontier common stock for each share of Holly common stock, plus an aggregate cash payment of \$172.5 million or approximately \$11.13 per common share based on the current number of outstanding Holly shares. Holly has approximately 15.5 million common shares outstanding, and Frontier has approximately 26.1 million common shares outstanding. Holly stockholders will also retain a non-transferable interest in potential future recoveries in litigation related to past sales of jet fuel to the United States government. The transaction is expected to be non-taxable to the shareholders of both companies, except for the cash consideration and contingent value rights to be received by Holly stockholders. The agreement between the companies contains reciprocal provisions for the payment of \$15 million termination fees under certain circumstances.

In May 2003, Frontier and the Company announced that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act had expired, satisfying one of the conditions to the completion of the pending merger of Frontier and

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Holly. As discussed in Note K, effective June 1, 2003, the Company closed its acquisition of the Woods Cross refinery which was another condition to the completion of the merger with Frontier. Completion of the merger is expected in the third calendar quarter of 2003. A registration statement on Form S-4 relating to the merger was filed with the Securities and Exchange Commission on May 13, 2003 by Front Range Himalaya Corporation.

Note N - Subsequent Event - Refinery Acquisition

Effective June 1, 2003, the Company closed the acquisition of the Woods Cross refinery, located near Salt Lake City, Utah, and related assets, including a refined products terminal in Spokane, WA, and a 50% ownership interest in refined products terminals in Boise and Burley, Idaho, from ConocoPhillips. The assets were purchased for cash in the amount equal to \$25 million less \$3.8 million for certain assumed pension obligations plus \$41 million for crude oil, refined product and other inventories. The pension obligation and inventory value are subject to adjustment. The Woods Cross refinery has a crude oil capacity of 25,000 barrels per day and has operated at close to capacity over the last three years. The purchase also included certain pipelines and other transportation assets used in connection with the refinery, 25 retail service stations located in Utah and Wyoming, and a 10-year exclusive license to market fuels under the Phillips brand in the states of Utah, Wyoming, Idaho and Montana. The purchase was financed from existing working capital and a \$25 million borrowing under the Company's credit facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Item 2, including but not limited to the sections on "Liquidity and Capital Resources" and "Additional Factors that May Affect Future Results," contains "forward-looking" statements. See "Forward-Looking Statements" at the beginning of Part I.

RESULTS OF OPERATIONS
FINANCIAL DATA (UNAUDITED)

	THREE MONTHS ENDED APRIL 30,		NINE
	2003	2002	2003
	(In thousands, except per		
Sales and other revenues	\$ 312,180	\$ 210,327	\$ 858,
Operating costs and expenses			
Cost of products sold (exclusive of depreciation,depletion, and amortization)	255,376	165,350	719,
Operating expenses (exclusive of depreciation,depletion, and amortization)	28,439	23,717	78,
Selling, general and administrative expenses (exclusive of depreciation,depletion, and amortization)	7,057	5,452	17,
Depreciation, depletion and amortization	8,979	6,884	23,
Exploration expenses, including dry holes	233	282	

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Total operating costs and expenses	300,084	201,685	840,
	-----	-----	-----
Gain on sale of assets	16,447	-	16,
Income from operations	28,543	8,642	34,
Other income (expense)			
Equity in earnings of joint ventures	(690)	1,571	
Interest expense, net	37	(405)	
Reparations payment received	15,226	-	15,
Gain on sale of equity securities	-	-	
	-----	-----	-----
	14,573	1,166	14,
	-----	-----	-----
Income before income taxes	43,116	9,808	49,
Income tax provision.....	16,415	3,609	18,
	-----	-----	-----
Net income	\$ 26,701	\$ 6,199	\$ 30,
	=====	=====	=====
Net income per common share - basic	\$ 1.72	\$ 0.40	\$ 1
Net income per common share - diluted	\$ 1.67	\$ 0.39	\$ 1
Average number of common shares outstanding:			
Basic	15,493	15,581	15,
Diluted	15,986	16,016	15,

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BALANCE SHEET DATA (UNAUDITED)

	APRIL 30,
	2003

	(In thousands, except
Cash and cash equivalents.....	\$ 38,050
Working capital.....	\$ 27,460
Total assets.....	\$ 541,899
Total long-term debt, including current maturities.....	\$ 25,714
Stockholders' equity.....	\$ 252,282
Total debt to capitalization ratio (1).....	9.2%

(1) The total long-term debt to capitalization ratio is calculated by dividing total long-term debt including current maturities by the sum of total long-term debt including current maturities and stockholders' equity.

OTHER FINANCIAL DATA (UNAUDITED)

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	THREE MONTHS ENDED		NINE MONTHS
	APRIL 30,		APRIL 30,
	2003	2002	2003
	(In thousands)		(In thousands)
Sales and other revenues (1)			
Refining.....	\$ 307,715	\$ 205,692	\$ 842,926
Pipeline Transportation.....	3,742	4,294	13,742
Corporate and Other.....	723	341	1,530
Consolidated.....	\$ 312,180	\$ 210,327	\$ 858,198
Income (loss) from operations (1)			
Refining.....	\$ 14,446	\$ 8,409	\$ 19,933
Pipeline Transportation.....	17,917	2,593	23,743
Corporate and Other.....	(3,820)	(2,360)	(9,207)
Consolidated.....	\$ 28,543	\$ 8,642	\$ 34,469
Net cash provided by operating activities.....	\$ 18,406	\$ 17,677	\$ 7,862
Net cash used by financing activities.....	\$ (2,185)	(1,558)	\$ (15,832)
Net cash provided (used) by investing activities.....	\$ 4,078	\$ (6,823)	\$ (25,610)
Capital expenditures.....	\$ 19,922	\$ 8,133	\$ 47,556
EBITDA (2).....	\$ 52,058	\$ 17,097	\$ 72,945

(1) The Refining segment includes the Company's principal refinery in Artesia, New Mexico, which is operated in conjunction with refining facilities in Lovington, New Mexico (collectively, the Navajo Refinery) and the Company's refinery near Great Falls, Montana. Included in the Refining Segment are costs relating to pipelines and terminals that operate in conjunction with the Refining segment as part of the supply and distribution networks of the refineries. The Pipeline Transportation segment includes approximately 1,000 miles (approximately 600 miles after the sale of pipelines as described in Note L of the Consolidated Financial Statements) of the Company's pipeline assets in Texas and New Mexico. Revenues of the Pipeline Transportation segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations.

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(2) Earnings before interest, taxes, depreciation and amortization - EBITDA is calculated as net income plus (i) interest expense net of interest income, (ii) income tax provision, and (iii) depreciation, depletion and amortization. EBITDA is not a calculation based upon generally accepted accounting principles: however, the amounts included in the EBITDA calculation are derived from amounts included in the consolidated financial statements of Holly. EBITDA should not be considered as an alternative to net income or operating income, as an indication of operating performance of Holly 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 enhances an investor's understanding of Holly's ability to satisfy principal and interest

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obligations with respect to Holly's indebtedness and to use cash for other purposes, including capital expenditures. EBITDA is also used by Holly management for internal analysis and as a basis for financial covenants. Our EBITDA presented above is reconciled to net income as follows:

	THREE MONTHS ENDED APRIL 30,		NINE
	2003	2002	2003
	-----		-----
	(In thousands)		(I
Net Income.....	\$ 26,701	\$ 6,199	\$ 30,
Add provision for income tax.....	16,415	3,609	18,
Add interest expense.....	135	622	1,
Subtract interest income.....	(172)	(217)	(
Add depreciation and amortization.....	8,979	6,884	23,
	-----		-----
EBITDA.....	\$ 52,058	\$ 17,097	\$ 72,
	=====		=====

REFINING SEGMENT OPERATING DATA (Unaudited)

	THREE MONTHS ENDED APRIL 30,		NINE
	2003	2002	2003
	-----		-----
	(in thousands except for BPD a		-----
Crude charge (BPD) (1).....	60,500	63,400	63,
Sales of refined products (BPD) (2).....	80,700	76,600	81,
Average sales price per sales barrel.....	\$ 42.84	\$ 30.26	\$ 37
Sales of produced refined products (BPD).....	66,300	69,700	69,
Average sales price per produced barrel.....	\$ 41.94	\$ 30.04	\$ 37
Reconciliation of Sales and other revenues in Consolidated Financial Statements (Also see Note H to Consolidated Financial Statements)			
Sales of refined product (BPD).....	80,700	76,600	81,
Average sales price per sales barrel.....	\$ 42.84	\$ 30.26	\$ 37
Refinery segment sales and other revenues (3).....	\$ 307,715	\$ 205,692	\$ 842,
Pipeline transportation segment sales and other revenues...	\$ 3,742	\$ 4,294	\$ 13,
Corporate and Other sales and other revenues.....	\$ 723	\$ 341	\$ 1,
	-----		-----
Consolidated Sales and other revenues.....	\$ 312,180	\$ 210,327	\$ 858,
	=====		=====

(1) Crude charge represents the barrels per day of crude oil processed through the crude units at the Company's refineries.

(2) Includes refined products purchased for resale representing 14,300 BPD,

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6,900 BPD, 12,200 BPD and 10,000 BPD, respectively.

- (3) In addition to revenues from sales of refined products, the refining segment includes other miscellaneous revenues amounting to \$25, (\$603), \$500, and \$1,466, respectively.

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	THREE MONTHS ENDED APRIL 30,		NIN 2003
	2003	2002	
Sales of produced refined products			
Gasolines.....	58.3%	58.2	5
Diesel fuels.....	21.9%	21.4	2
Jet fuels.....	9.3%	10.2	
Asphalt.....	6.8%	6.1	
LPG and other.....	3.7%	4.1	
Total.....	100.0%	100.0	10

RESULTS OF OPERATIONS - THREE MONTHS AND NINE MONTHS ENDED APRIL 30, 2003
COMPARED WITH THREE MONTHS AND NINE MONTHS ENDED APRIL 30, 2002

Summary

Net income for the three months ended April 30, 2003 was \$26.7 million (\$1.72 per basic share and \$1.67 per diluted share) compared to net income of \$6.2 million (\$.40 per basic share and \$.39 per diluted share) for the three months ended April 30, 2002. For the nine months ended April 30, 2003, net income was \$30.4 million (\$1.96 per basic share and \$1.90 per diluted share) compared to \$25.9 million (\$1.67 per basic share and \$1.62 per diluted share) for the nine months ended April 30, 2002.

Net income before taxes for the third quarter ended April 30, 2003 increased by \$33.3 million as compared to the prior year's third quarter primarily due to the \$15.2 million reparation payment received from Kinder Morgan as discussed in Note K to Consolidated Financial Statements, \$16.4 million gain on the sale of pipeline assets to Plains Marketing L.P. as discussed in Note L to Consolidated Financial Statements, and \$11.8 million from improved refinery margins offset by \$8.4 million of higher operating, depreciation and administrative costs.

Net income before taxes for the nine months ended April 30, 2003 increased by \$6.9 million compared to the nine months ended April 30, 2002 due to the \$15.2 million reparation payment received as discussed in Note K to Consolidated Financial Statements, \$16.4 million gain on sale of pipeline assets as discussed in Note L to Consolidated Financial Statements offset by \$5.9 million in lower refinery margins, \$11.8 million of higher operating, depreciation and administrative costs and \$1.1 million in losses rather than \$5.5 million in earnings from the asphalt joint venture.

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Three Months Ended April 30, 2003 Compared with Three Months Ended April 30, 2002

For the third fiscal quarter of 2003, the Company's net income was \$26.7 million compared to net income of \$6.2 million in the third fiscal quarter of 2002. The \$33.3 million net increase in net income before taxes for the third quarter ended April 30, 2003 as compared to the prior year's third quarter was due to the \$15.2 million reparation payment as discussed in Note K to Consolidated Financial Statements, \$16.4 million gain on the sale of pipeline assets as discussed in Note L to Consolidated Financial Statements, and \$11.8 million in improved refinery margins offset by \$8.4 million of higher operating, depreciation and administrative costs.

Revenues from the sale of refined products and other revenues increased to \$312.2 million in the third quarter of fiscal 2003 from \$210.3 million in the third quarter of fiscal 2002 due

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principally to higher refined product sales prices and to higher refined product volumes sold. For the third quarter ended April 30, 2003, refined product sales volumes, purchased and produced, increased approximately 5% and refinery margins increased \$2.46 per barrel to \$8.86 per barrel compared to \$6.40 per barrel for the prior year's third quarter.

Cost of products sold for the third quarter of fiscal 2003 as compared to the same quarter of fiscal 2002 increased significantly by \$90.0 million to \$255.4 million primarily reflecting the substantially higher costs of crude oil.

Operating expenses increased \$4.7 million to \$28.4 million in the third quarter of fiscal 2003 from \$23.7 million in the third quarter of fiscal 2002 primarily due to higher utility costs, higher environmental costs and increased compensation expense.

Selling, general and administrative expenses increased \$1.6 million to \$7.1 million in the third fiscal quarter of 2003 from \$5.5 million in the third fiscal quarter of 2002 primarily due to increases in corporate development costs associated with the consideration of various strategic alternatives and increases in compensation expense offset by decreases in costs associated with legal proceedings.

Depreciation, depletion and amortization expenses increased \$2.1 million to \$9.0 million for the three months ended April 30, 2003 from \$6.9 million for the three months ended April 30, 2002 due to higher depreciation expense which included the abandonment of two crude field tanks in West Texas and higher amortization expense due to changes in turnaround benefit periods for certain refinery units now scheduled for turnaround in December 2003.

Equity in earnings of joint ventures was a loss of \$690,000 for the quarter ended April 30, 2003 as compared to income of \$1.6 million in the quarter ended April 30, 2002. The \$2.3 million decrease is primarily due to losses incurred by our asphalt joint venture because of lower margins compared to substantial income of the asphalt joint venture in the comparable quarter of fiscal 2002.

Nine Months Ended April 30, 2003 Compared with Nine Months Ended April 30, 2002

Net income for the nine months ended April 30, 2003 was \$30.4 million

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compared to \$25.9 million for the nine months ended April 30, 2002. The \$6.9 million net increase in income before taxes for the nine months ended April 30, 2003 compared to the nine months ended April 30, 2002 was due to the \$15.2 million reparation payment received as discussed in Note K to Consolidated Financial Statements, \$16.4 million gain on sale of pipeline assets as discussed in Note L to Consolidated Financial Statements, offset by decreases of \$5.9 million of lower refinery margins, \$11.8 million of higher operating, depreciation and administrative costs and \$1.1 million in losses rather than \$5.5 million in earnings from the asphalt joint venture. For the nine months ended April 30, 2003, refining margins declined to \$6.37 per barrel from \$7.13 per barrel for the nine months ended April 30, 2002.

Revenues from the sale of refined products and other revenues increased to \$858.2 million in the first nine months of fiscal 2003 from \$635.0 million in the first nine months of fiscal 2002 due principally to higher refined product sales prices. Total product sales volumes for the nine months ended April 30, 2003 increased approximately 10% from the nine months ended April 30, 2002. Production of refined products in the nine months ended April 2002 was lower as a result of an extended 29-day planned maintenance turnaround at the Artesia and

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Lovington facilities during the second quarter of fiscal 2002.

Cost of sales for the nine months ended April 30, 2003 increased to \$719.8 million from \$491.4 million for the nine months ended April 30, 2002. The \$228.4 million increase was primarily due to higher costs of crude oil and, to a lesser extent, higher production volumes.

Operating expenses increased \$7.1 million to \$78.8 million in the first nine months of fiscal 2003 from \$71.7 million in the first nine months of fiscal 2002 primarily due to higher utility costs, higher environmental costs, increased insurance costs and increased compensation expense.

Selling, general and administrative expenses increased \$1.5 million to \$17.6 million in the first nine months of fiscal 2003 from \$16.1 million in the first nine months of fiscal 2002 primarily due to increases in corporate development costs associated with the consideration of various strategic alternatives and increases in compensation expense offset by decreases in costs associated with legal proceedings.

Depreciation, depletion and amortization expenses increased \$3.3 million to \$23.3 million for the three months ended April 30, 2003 from \$20.0 million for the three months ended April 30, 2002 due to higher depreciation expense which included the abandonment of two crude field tanks in West Texas and higher amortization expense due to changes in turnaround benefit periods for certain refinery units now scheduled for turnaround in December 2003.

Interest expense declined by \$1.1 million during the nine months ended April 30, 2003 primarily due to reduced interest costs as the Company has made required principal payments on term debt and to a higher percentage of interest capitalized as a result of the Company's current construction projects. The reduction in interest expense was partially offset by a \$615,000 decrease in interest income primarily due to lower funds available for investment and lower interest rates.

Equity in earnings of joint ventures declined substantially to an \$86,000 loss for the nine months ended April 30, 2003, from \$6.6 million in

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income for the nine months ended April 30, 2002. The \$6.7 million decline resulted primarily from losses incurred by our asphalt joint venture because of lower margins for the first nine months of fiscal 2003, which included an inventory charge of \$1.3 million in the second fiscal quarter of 2003, compared to substantial income for the joint venture in the first nine months of fiscal 2002.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by \$33.6 million during the nine months ended April 30, 2003. The reduction in cash was due to \$47.6 million in capital expenditures, principally for the Navajo Refinery's gas oil hydrotreater and refinery expansion projects, a \$2.5 million deposit related to the acquisition of the Woods Cross refinery, \$8.6 million for scheduled principal payments of long-term debt, \$3.1 million paid for repurchase of treasury shares and \$5.1 million for cash dividends, partially offset by \$24 million of proceeds from the sale of pipeline assets, proceeds of \$1.6 million for common stock issued upon exercise of stock options and \$7.9 million provided from operating activities. Cash flows provided by operating activities included a payment of \$25 million for prepaid transportation as part of settlement by agreement of litigation with Longhorn Partners Pipeline, L.P. and included a receipt of \$15.2 million reparation payment from Kinder Morgan.

On October 30, 2001, the Company announced plans to repurchase up to \$20 million of the Company's common stock. Such repurchases have been made from time to time in open market purchases or privately negotiated transactions, subject to price and availability. The repurchases have been financed with currently available corporate funds. During the nine months ended April 30, 2003, the Company repurchased 173,900 shares at a cost of approximately \$3.1 million or an average of \$17.85 per share. From inception of the plan through June 9, 2003, the Company has repurchased 272,400 shares at a cost of approximately \$4.7 million.

In December 2001, an agreement was reached among the Company, the Environmental Protection Agency, the New Mexico Environment Department, and the Montana Department of Environmental Quality with respect to a global settlement of issues concerning the application of air quality requirements to past and future operations of the Company's refineries. The Consent Decree implementing this agreement requires investments by the Company currently expected to total between \$15 million and \$17 million over a number of years, of which approximately \$7 million has been expended to date, for the installation of certain state of the art pollution control equipment at the Company's New Mexico and Montana refineries.

In May 2003, the Company amended its Revolving Credit Agreement with a group of banks led by Canadian Imperial Bank of Commerce and increased the commitment from \$75 million to \$100 million. The Company now has access to \$100 million of commitments that can be used for revolving credit loans and letters of credit. Previously the Company had access to \$75 million of commitments of which only \$37.5 million could be used for revolving credit loans. The Company borrowed \$10 million under the Revolving Credit Agreement in the quarter ended April 30, 2003, all of which was paid back during the quarter. At April 30, 2003 the Company had letters of credit outstanding under the facility of \$12.7 million and had no borrowings outstanding.

Effective June 1, 2003, the Company closed the acquisition of the Woods

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Cross refinery, located near Salt Lake City, Utah, and related assets, including a refined products terminal in Spokane, WA, and a 50% ownership interest in refined product terminals in Boise and Burley, Idaho, from ConocoPhillips. The assets were purchased for cash in an amount equal to \$25 million less \$3.8 million for certain assumed pension obligations plus \$41 million for crude oil, refined product and other inventories. The pension obligation and inventory value are subject to adjustment. The purchase was financed from working capital and a \$25 million borrowing under the Company's credit facility.

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On March 3, 2003, the Company sold its Iatan crude oil gathering pipeline system located in West Texas to Plains Marketing L.P. for a purchase price of \$24 million in cash. In connection with the transaction, the Company and Plains entered into a six and one-half year agreement which commits the Company to transport any crude oil purchased by the Company in the relevant area on the Iatan system at an agreed upon tariff. The sale resulted in a pre-tax gain for the Company of approximately \$16.4 million.

The Company believes its internally generated cash flow together with its Credit Agreement should provide adequate resources to fund planned capital projects and acquisitions, scheduled repayments of the Senior Notes, continued payment of dividends (although dividend payments must be approved by the Board of Directors and cannot be guaranteed) and the Company's current liquidity needs.

Cash Flows from Operating Activities

Cash flows provided by operating activities for the first nine months of fiscal 2003 were \$7.9 million. For the comparable nine month period of fiscal 2002, cash provided by operating activities was \$11.2 million. The \$3.3 million decrease in cash provided by operating activities for the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002 was primarily due to \$25 million paid for prepaid transportation services and a decrease in operating income of \$17.0 million, primarily due to lower refined product margins, offset by the \$15.2 million reparation payment received as discussed in Note K to Consolidated Financial Statements, \$9.3 million in reduced turnaround expenditures as compared to the first nine months of the 2002 fiscal year, and a \$14.5 million decrease in working capital items. In the first nine months of fiscal 2003, changes in working capital items used \$1.1 million as compared to the first nine months of fiscal 2002 when changes in working capital used \$15.6 million primarily due to a payment of \$24.0 million for estimated income taxes.

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Cash Flows from Financing Activities

Cash flows used for financing activities were \$15.8 million for the nine months ended April 30, 2003, as compared to \$11.9 million in the same period of the prior year. During the first nine months of fiscal 2003, the Company made a scheduled repayment of long-term debt for \$8.6 million, incurred \$635,000 in debt issuance costs in connection with extending its credit facility to October 2004, spent \$3.1 million to repurchase 173,900 shares of common stock, paid \$5.1 million in dividends and received \$1.6 million upon the

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exercise of options to acquire 114,500 shares of common stock. During the first nine months of fiscal 2002, the Company made scheduled repayment of long-term debt for \$8.6 million, spent \$160,000 to repurchase 8,600 shares of its common stock, paid \$4.7 million in dividends and received \$1.5 million upon the exercise of options to acquire 108,500 shares of common stock.

Cash Flows Used for Investing Activities and Capital Projects

Cash flows used for investing activities were \$25.6 million for the nine months ended April 30, 2003, as compared to \$7.6 million for the same period of the 2002 fiscal year. Cash expenditures for property, plant and equipment for the first nine months of the current and prior fiscal years were \$47.6 million and \$20.8 million respectively. Most of the increase is due to the Navajo Refinery's gas oil hydrotreater and expansion projects. Also in the nine months ended April 30, 2003, the Company made a \$2.5 million deposit in connection with the acquisition of the Woods Cross refinery. The Company's net cash flow used for investing activities was reduced during the first nine months of fiscal 2003 by a \$487,500 distribution to the Company from the Rio Grande Pipeline joint venture and by \$24 million in proceeds from the sale of a crude oil gathering pipeline system located in West Texas as discussed in Note L to Consolidated Financial Statements. During the first nine months of fiscal 2002, the Company's net cash flow used by investing activities was reduced by a \$2.8 million distribution to the Company from the Rio Grande Pipeline joint venture, a \$5.5 million distribution to the Company from the asphalt joint venture and by \$4.5 million of proceeds from the sale of marketable equity securities held for investment.

The Company's capital budget adopted for fiscal year 2003 totals \$14.8 million - \$6.5 million for additional costs relating to the hydrotreater project and refinery expansion, \$3.2 million for other refinery improvements, \$3 million for pipeline transportation projects, \$.6 million for oil and gas exploration and production, and \$1.5 million for information technology and other. The 2003 capital budget includes authorizations for some expenditures that are expected to be made after the close of the 2003 fiscal year. The Company expects to expend approximately \$55 million in fiscal 2003 for capital improvements, which includes amounts authorized in previous fiscal years. This amount is expected to be allocated approximately \$30 million for the hydrotreater project and the refinery expansion to an estimated 75,000 barrels per day ("BPD") as described below, approximately \$6 million for other refinery improvements, approximately \$2 million for pipeline and transportation projects, and approximately \$2 million for other projects, including information technology projects and oil and gas exploration and development. These expenditures include projects authorized in the Company's 2003 capital budget as well as expenditures authorized in prior capital budgets but expected to be carried out in fiscal 2003.

In November 1997, the Company purchased a hydrotreater unit for \$5.1 million from a closed refinery. This purchase gave the Company the ability to reconstruct the unit at the Navajo Refinery at an estimated savings of approximately \$20.0 million as compared to the purchase

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cost of a new unit. During the last four years, the Company spent approximately \$41.6 million on relocation, engineering, equipment fabrication, and construction related to the hydrotreater and expansion projects. The remaining costs to complete the hydrotreater project and the expansion project are estimated to be approximately \$22.2 million. The Company expects that the

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hydrotreater and expansion projects will be completed by December 2003. The hydrotreater will enhance higher value light product yields and expand the Company's ability to produce additional quantities of gasolines meeting the present California Air Resources Board ("CARB") standards, which have been adopted in the Company's Phoenix market for winter months beginning in late 2000, and to meet the recently adopted EPA nationwide Low-Sulfur Gasoline requirements scheduled to begin in 2004. In fiscal 2001 the Company completed the construction of a new additional sulfur recovery unit, which is currently utilized to enhance sour crude processing capabilities and will provide sufficient capacity to recover the additional extracted sulfur that will result from operation of the hydrotreater.

Contemporaneous with the hydrotreater project, the Navajo Refinery will be making necessary modifications to several of the Artesia processing units for the first phase of Navajo's expansion, which will increase crude oil refining capacity from 60,000 BPD to approximately 75,000 BPD. The first phase of the expansion is expected to be completed by December 2003. Additional air emission permits will be required to implement needed modifications at Navajo's Lovington, New Mexico refining facility which is operated in conjunction with the Artesia facility. It is envisioned that these necessary modifications to the Lovington facility would also be completed by December 2003. The permits received by Navajo to date for the Artesia facility, subject to possible minor modifications, should also permit a second phase expansion of Navajo's crude oil capacity from an estimated 75,000 BPD to an estimated 80,000 BPD, but a schedule for such additional expansion has not been determined. Engineering and planning for the projects has been completed and the Company's estimate of the total cost of the projects has increased from the original estimate of approximately \$56 million to approximately \$68.9 million due to the increased costs and scope of certain refinery infrastructure upgrades, added capacity and sulfur recovery capabilities and the increased actual costs of previously estimated portions of the projects.

Effective June 1, 2003, the Company closed the acquisition of the Woods Cross refinery located near Salt Lake City, Utah, and related assets from ConocoPhillips. The assets were purchased for \$25 million less \$3.8 million for certain assumed pension obligations plus \$41 million for crude oil, refined product and other inventories. The pension obligation and inventory value are subject to adjustment. The Woods Cross refinery has a crude oil capacity of 25,000 barrels per day and has operated at close to capacity over the last three years. The purchase also included certain pipelines and other transportation assets used in connection with the refinery, 25 retail service stations located in Utah and Wyoming, and a 10-year exclusive license to market fuels under the Phillips brand in the states of Utah, Wyoming, Idaho and Montana. The purchase was financed with cash and \$25 million borrowing under the Company's credit facility.

The Company leases from Mid-America Pipeline Company more than 300 miles of 8" pipeline running from Chaves County to San Juan County, New Mexico (the "Leased Pipeline"). The Company owns and operates a 12" pipeline from the Navajo Refinery to the Leased Pipeline as well as terminalling facilities in Bloomfield, New Mexico, which is located in the northwest corner of New Mexico and in Moriarty, which is 40 miles east of Albuquerque. Transportation of petroleum products to markets in northwest New Mexico and diesel fuels to Moriarty began in the last months of calendar 1999. In December 2001, the Company completed its expansion of

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the Moriarty terminal and its pumping capacity on the Leased Pipeline. The terminal expansion included the addition of gasoline and jet fuel to the existing diesel fuel delivery capabilities, thus permitting the Company to provide a full slate of light products to the growing Albuquerque and Santa Fe, New Mexico areas. The enhanced pumping capabilities on the Company's leased pipeline extending from the Artesia refinery through Moriarty to Bloomfield will permit the Company to deliver a total of over 45,000 BPD of light products to these locations. If needed, additional pump stations could further increase the pipeline's capabilities.

Contractual Obligations and Commitments

The following table presents long-term contractual obligations of the Company in total and by period due. These items include the Company's long-term debt based on maturity dates and the Company's operating lease commitments. The Company's operating leases contain renewal options that are not reflected in the table below and that are likely to be exercised.

CONTRACTUAL OBLIGATIONS	TOTAL	PAYMENTS DUE BY PERIOD		
		LESS THAN 1 YEAR	2-3 YEARS	4-5 YEARS
		(In thousands)		
Long-term debt (stated maturities).....	\$ 25,714	\$ 8,571	\$ 17,143	\$ 6,000
Operating leases.....	\$ 25,336	\$ 6,091	\$ 11,976	\$ 6,000

In July 2000, Navajo Western Asphalt Company ("Navajo Western"), a wholly-owned subsidiary of the Company, and a subsidiary of Koch Materials Company ("Koch") formed a joint venture, NK Asphalt Partners, to manufacture and market asphalt and asphalt products in Arizona and New Mexico under the name "Koch Asphalt Solutions - Southwest." Navajo Western contributed all of its assets to NK Asphalt Partners and Koch contributed its New Mexico and Arizona asphalt and manufacturing assets to NK Asphalt Partners. All asphalt produced at the Navajo Refinery is sold at market prices to the joint venture under a supply agreement. The Company is required to make additional contributions to the joint venture of up to \$3,250,000 for each of the next eight years contingent on the earnings level of the joint venture. In the event that Holly fails to make the required contributions, Holly may lose its voting rights during such default and the other partner could cause the partnership to bring a proceeding to collect the unpaid contributions plus interest at the prime rate plus 2%.

As part of the Consent Decree filed December 2001 implementing an agreement reached among the Company, the Environmental Protection Agency, the New Mexico Environment Department, and the Montana Department of Environmental Quality, the Company is required to make investments at the Company's New Mexico and Montana refineries for the installation of certain state of the art pollution control equipment currently expected to total between \$15 million and \$17 million over a period expected to end 2009.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

This discussion should be read in conjunction with the discussion under the heading "Additional Factors That May Affect Future Results" included in Item 7 of the Company's Annual Report on Form 10-K/A for the fiscal year ended July 31, 2002.

The proposed Longhorn Pipeline, which is owned by Longhorn Partners

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Pipeline, L.P. ("Longhorn Partners"), is an additional potential source of pipeline transportation from Gulf

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Coast refineries to El Paso. This pipeline is proposed to run approximately 700 miles from the Houston area of the Gulf Coast to El Paso, utilizing a direct route. Longhorn Partners has proposed to use the pipeline initially to transport approximately 72,000 BPD of refined products from the Gulf Coast to El Paso and markets served from El Paso, with an ultimate maximum capacity of 225,000 BPD. Although most construction has been completed, the Longhorn Pipeline will not begin operations until the completion of certain agreed improvements and pre-start-up steps. Published reports indicate that construction in preparation for start-up of the Longhorn Pipeline continued until late July 2002, when the construction activities were halted before completion of the project. The latest public statements from Longhorn Partners indicate that Longhorn Partners is seeking additional financing to complete the project and that no specific target date for commencement of operations is currently set. The proposed operation of the Longhorn Pipeline is also the subject of a pending appeal in the United States Court of Appeals for the Fifth Circuit of a decision by the federal district court in Austin, Texas that allows the Longhorn Pipeline to begin operations when agreed improvements have been completed. This appeal seeks a ruling that would reverse the federal district court's decision and require a full environmental impact study before the Longhorn Pipeline is allowed to operate.

If the Longhorn Pipeline operates as currently proposed, lower requirements for capital investment permitted by the direct route through Austin, Texas and over the Edwards Aquifers could allow Longhorn Partners to give its shippers a cost advantage through lower tariffs that could, at least for a period, result in significant downward pressure on wholesale refined products prices and refined products margins in El Paso and related markets. However, any effects on the Company's markets in Tucson and Phoenix, Arizona and Albuquerque, New Mexico would be expected to be limited in the next few years because current common carrier pipelines from El Paso to these markets are now running at capacity and proration policies of these pipelines allocate only limited capacity to new shippers. Although the Company's results of operations might be adversely impacted and some current suppliers in the market might not compete in such a climate, the Company's analyses indicate that, because of location, recent capital improvements, and enhancements to operational efficiency, the Company's position in El Paso and markets served from El Paso could withstand a period of lower prices and margins that might result from operation of the Longhorn Pipeline as currently proposed.

As a result of the Company's settlement in November 2002 of litigation with Longhorn Partners as described in Part II, Item 1 "Legal Proceedings," on November 26, 2002 the Company prepaid \$25,000,000 to Longhorn Partners for the shipment of 7,000 BPD of refined products from the Gulf Coast to El Paso in a period of up to 6 years from the date the Longhorn Pipeline begins operations if such operations begin by July 1, 2004. Under the agreement, the prepayment would cover shipments of 7,000 BPD by the Company for approximately 4 1/2 years assuming there were no curtailments of service once operations began. The Company plans to make use of the prepaid transportation services to ship purchased refined products on the Longhorn Pipeline to meet obligations of the Company to deliver refined products to customers in El Paso. These transportation services are expected to be of benefit to the Company because the Company believes that most or all of such refined products shipped by the Company on the Longhorn Pipeline would take the place of products that would

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otherwise have been purchased by the Company from other suppliers.

At the date of this report, it is not possible to predict whether and, if so, under what conditions, the Longhorn Pipeline will ultimately be operated, nor is it possible to predict the overall impact on the Company if the Longhorn Pipeline does not ultimately begin operations or begins operations at different possible future dates. Under the terms of the November 2002

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settlement agreement that terminated litigation between the Company and Longhorn Partners, the Company would have an unsecured claim for repayment of the Company's \$25,000,000 prepayment to Longhorn Partners for transportation services in the event the Longhorn Pipeline did not begin operations by July 1, 2004 or announced that it would not begin operations by that date.

Frontier Oil Corporation and Holly Corporation Merger Agreement

On March 31, 2003, Frontier and the Company announced an agreement pursuant to which the two companies will merge. The merged company will be called Frontier Oil Corporation and will be headquartered in Houston, Texas. Following the merger, the combined company will own five refineries with refining capacity in excess of 260,000 barrels-per-day including several highly complex, niche refineries. Terms of the deal provide for the Company's stockholders to receive one share of Frontier common stock for each share of Holly common stock, plus an aggregate cash payment of \$172.5 million or approximately \$11.13 per common share based on the current number of outstanding Holly shares. Holly has approximately 15.5 million common shares outstanding, and Frontier has approximately 26.1 million common shares outstanding. Holly stockholders will also retain a non-transferable interest in potential future recoveries in litigation related to past sales of jet fuel to the United States government. The transaction is expected to be non-taxable to the shareholders of both companies, except for the cash consideration and contingent value rights to be received by Holly stockholders. The agreement between the companies contains reciprocal provisions for the payment of \$15 million termination fees under certain circumstances.

In May 2003, Frontier and the Company announced that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act had expired, satisfying one of the conditions to the completion of the pending merger of Frontier and Holly. As discussed in Note K, effective June 1, 2003, the Company closed its acquisition of the Woods Cross refinery which was another condition to the completion of the merger with Frontier. Completion of the merger is expected in the third calendar quarter of 2003. A registration statement on Form S-4 relating to the merger was filed with the Securities and Exchange Commission on May 13, 2003 by Front Range Himalaya Corporation.

Other legal proceedings that could affect future results are described in Part II, Item 1 "Legal Proceedings."

RISK MANAGEMENT

The Company uses certain strategies to reduce some commodity price and operational risks. The Company does not attempt to eliminate all market risk exposures when the Company believes the exposure relating to such risk would not be significant to the Company's future earnings, financial position, capital resources or liquidity or that the cost of eliminating the exposure would outweigh the benefit.

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The Company's profitability depends largely on the spread between market prices for refined products and market prices for crude oil. A substantial or prolonged reduction in this spread could have a significant negative effect on the Company's earnings, financial condition and cash flows. At times, the Company utilizes petroleum commodity futures contracts to

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minimize a portion of its exposure to price fluctuations associated with crude oil and refined products. In December 2002, the Company entered into cash flow hedges relating to certain forecasted transactions to buy crude oil and sell gasoline in March 2003. The purpose of the hedges is to help protect the Company from the risk that the refinery margin would decline with respect to the hedged crude oil and refined products. To effect the hedges, the Company entered into gasoline and crude oil futures transactions. During the quarter ended April 30, 2003, the Company marked the value of the outstanding hedges to fair value in accordance with SFAS No. 133 and included \$102,000 of gain in comprehensive income. In March 2003, as the transactions occurred, the Company reclassified \$108,000 of actual losses from comprehensive income to cost of sales. The ineffective portion of the hedges was a \$32,000 gain that was also included in cost of sales. For the fiscal quarter ended April 30, 2003, the Company entered into commodity derivative contracts to help protect refining margins that while an economic hedge, did not qualify for hedge accounting treatment. The Company realized a gain of \$302,000 which was included in cost of sales. As of April 30, 2003, there were no hedges outstanding.

At April 30, 2003, the Company had outstanding unsecured debt of \$25.7 million and had no borrowings outstanding under its Credit Agreement. The Company does not have significant exposure to changing interest rates on its unsecured debt because the interest rates are fixed, the average maturity is less than two years and such debt represents approximately 10% of the Company's total capitalization. As the interest rates on the Company's bank borrowings are reset frequently based on either the bank's daily effective prime rate, or the LIBOR rate, interest rate market risk is very low. There were no bank borrowings in fiscal 2002. The Company had a short-term borrowing of \$10 million in March 2003 which was repaid in April 2003. Additionally, the Company invests any available cash only in investment grade, highly liquid investments with maturities of three months or less and hence the interest rate market risk implicit in these cash investments is low. A one percent change in the market interest rate over the next year would not materially impact the Company's earnings or cash flow since the interest rates on the Company's long-term debt are fixed and the Company's borrowings under the Credit Agreement, if any, and cash investments are at short-term market rates and such interest has historically not been significant as compared to the total operations of the Company. A one percent change in the market interest rate over the next year would not materially impact the Company's financial condition since the average maturity of the Company's long-term debt is less than two years, such debt represents approximately 10% of the Company's total capitalization, and the Company's borrowings under the Credit Agreement and cash investments are at short-term market rates.

The Company's operations are subject to normal hazards of operations, including fire, explosion and weather-related perils. The Company maintains various insurance coverages, including business interruption insurance, subject to certain deductibles. The Company is not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in the judgment of the Company, do not justify such expenditures. Shortly

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after the events of September 11, 2001, the Company completed a security assessment of its principal facilities. Several security measures identified in the assessment have been implemented and others are in the process of being implemented. Because of recent changes in insurance markets, insurance coverages available to the Company are becoming more costly and in some cases less available. So long as this current trend continues, the Company expects to incur higher insurance costs and anticipates that, in some cases, it will be necessary to reduce somewhat the extent of insurance coverages because of reduced insurance availability at acceptable premium costs.

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NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 142 "Goodwill and Other Intangible Assets" which changes how goodwill and other intangible assets are accounted for subsequent to their initial recognition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, with early adoption permitted; however, all goodwill and intangible assets acquired after June 30, 2001, are immediately subject to the provisions of this statement. The Company adopted the standard effective August 1, 2002 and there was no material effect on its financial condition, results of operations, or cash flows.

In June 2001, FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" which requires that the fair value for an asset retirement obligation be capitalized as part of the carrying amount of the long-lived asset if a reasonable estimate of fair value can be made. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. The Company adopted the standard effective August 1, 2002 and there was no material effect on the Company's financial condition, results of operations, or cash flows.

In August 2001, FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", but carries over the key guidance from SFAS No. 121 in establishing the framework for the recognition and measurement of long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early adoption permitted. The Company adopted the standard effective August 1, 2002 and there was no material effect on its financial condition, results of operations, or cash flows.

In June 2002, FASB issued SFAS No. 146 "Accounting for Certain Costs Associated with Exit or Disposal Activities" which nullifies Emerging Issues Task Force ("EITF") 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes fair value as the objective for initial measurement of liabilities. This differs from EITF 94-3 which stated that liabilities for exit costs were to be recognized as of the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted SFAS No. 146 on January 1, 2003, and the standard has had no effect on its financial condition, results of operations, or cash flows.

In December 2002, FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation -- Transition and Disclosure", an amendment of SFAS No. 123. This statement provides alternative methods of transition to SFAS 123's fair value

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method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148's amendment of the disclosure requirements is effective for interim periods beginning after December 15, 2002. SFAS 148's amendment of the transition and annual disclosure requirements of SFAS 123 are effective for fiscal years ending after December 15, 2002. See Note D to Consolidated Financial Statements for effect of this standard on the Company's financial condition, results of operations, or cash flows.

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In May 2003, FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement will result in a more complete depiction of an entity's liabilities and equity and will, thereby, assist investors and creditors in assessing the amount, timing, and likelihood of potential future cash outflows and equity share issuances. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company expects that the standard will have no effect on its financial condition, results of operations, or cash flows.

The American Institute of Certified Public Accountants has issued an Exposure Draft for a Proposed Statement of Position, "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" which would require major maintenance activities to be expensed as costs are incurred. As of April 30, 2003, the Company had approximately \$11.6 million of deferred maintenance costs, all relating to refinery turnarounds in prior periods, which are being amortized over various benefit periods. The current monthly amortization is \$782,000. If this proposed Statement of Position had been adopted in its current form, as of April 30, 2003, the Company would have been required to expense, as of April 30, 2003, \$11.6 million of deferred maintenance costs and would be required to expense all future turnaround costs as incurred.

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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."

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) as of a

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date within 90 days of the filing date of this quarterly report on Form 10-Q/A. Based on that evaluation, these officers concluded that the design and operation of the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal controls.

There have been no significant changes in the Company's internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the principal executive officer and principal financial officer of the Company completed their evaluation.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the Company's pending lawsuit in the United States Court of Federal Claims against the Department of Defense relating to claims totaling approximately \$298 million with respect to jet fuel sales by two subsidiaries in the years 1982 through 1999, a motion for summary judgment filed in January 2003 by the United States Government and a cross-motion for summary judgment filed in February 2003 by the Company remain pending and no date has yet been set for a hearing on these motions. In the past few months, the United States Court of Federal Claims has issued rulings in other cases concerning jet fuel sales by unrelated refining companies that have generally supported the positions taken by the Company with respect to the pending motions in the Company's case. Decisions favorable to the Company on the pending motions for summary judgment in the Company's case would not immediately result in a final ruling for the Company but would instead be followed by substantial discovery proceedings and then a trial on factual issues. It is not possible at the date of this report to predict what amount, if any, will ultimately be payable to the Company with respect to this lawsuit.

In September 2002, the Federal Energy Regulatory Commission ("FERC") issued an order in proceedings brought by the Company and other parties against Kinder Morgan's SFPP, L.P. ("SFPP") relating to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. The Company is one of several refiners that regularly utilize an SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona. The September 2002 order resolved most remaining issues relating to SFPP's tariffs on the pipelines to points in Arizona, including issues related to payments made by the Company for shipments of petroleum products from El Paso, Texas to Tucson and Phoenix, Arizona principally for the period from 1993 through July 2000. On January 29, 2003, the FERC issued an order accepting most of the computations prepared by SFPP pursuant to the September 2002 order and requiring a change in one item. In April 2003, the Company received \$15.2 million from Kinder Morgan as payment for the reparations ordered by FERC and such amount has been included in net income for the fiscal quarter ended April 30, 2003. In June 2003 the FERC issued a further order requiring an adjustment in the computations which is expected to result in a small additional payment to the Company. The final FERC decision on this matter is subject to judicial review by the Court of Appeals for the District of Columbia Circuit. In the event SFPP prevails in whole or in part in

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such judicial review, the reparations actually owed may be less than the \$15.2 million and in that event part or all of the \$15.2 million received by the Company in April 2003 would have to be refunded. At the date of this report, it is not possible to predict the result of judicial review proceedings on this matter in the Court of Appeals for the District of Columbia Circuit.

In October 2002, the Company filed a motion to intervene and protest with the FERC with respect to a September 2002 petition for declaratory order filed by SFPP. SFPP's filing concerns its proposal to expand the capacity of its common carrier pipelines running from El Paso to Tucson and Phoenix by approximately 54,000 BPD. The Company's protest asks the FERC to rule that the costs of the proposed expansion should be reflected only in pipeline transportation rates for use of the proposed additional capacity rather than in rates for use of both the proposed additional capacity and the current capacity of these pipelines. On January 29, 2003, the FERC issued an order that, along with addressing other issues, did not accept the Company's position. In early March 2003 the Company filed with the FERC a request for rehearing on this matter. As of the date of this report, no action has been taken by the FERC

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regarding the Company's request for hearing.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification of Chief Executive Officer.

99.2 Certification of Chief Financial Officer

(b) Reports on Form 8-K:

On March 4, 2003, a Current Report on Form 8-K was filed under Item 5 Other Events, concerning an announcement by the Company of the sale of its Iatan crude oil gathering system.

On March 7, 2003, a Current Report on Form 8-K was filed under Item 5 Other Events, concerning the Company's earnings release for the second quarter and six months ended January 31, 2003.

On April 2, 2003, a Current Report on Form 8-K dated March 30, 2003 was filed under Item 5 Other Events and under Item 7(c) Financial Statements and Exhibits, concerning the announcement by the Company of its agreement to merge with Frontier Oil Corporation (NYSE: FTO). Exhibits included were the Agreement and Plan of Merger dated March 30, 2003 among Frontier, Holly, Front Range Himalaya Corporation ("Parent"), Front Range Merger Corporation ("Front Range") and Himalaya Merger Corporation ("Himalaya") and related supporting agreements including Holly Holder Support Agreement, Frontier Affiliate's Support Agreement and Registration Rights Agreement.

On May 13, 2003, a Current Report on Form 8-K dated May 12, 2003 was filed under Item 5 Other Events and under Item 7 (c) Financial Statements and Exhibits concerning the Amendment to the Merger Agreement dated May 12, 2003 amending the Agreement and Plan of Merger dated March 30, 2003 among Holly, Frontier, Parent, Front Range and Himalaya. The Merger Agreement was

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previously filed on Holly's current report on Form 8-K filed on April 2, 2003. Exhibits included were the Amendment to the Merger Agreement dated May 12, 2003 and the Contingent Value Rights Agreement dated May 12, 2003.

On May 21, 2003, a Current Report on Form 8-K dated May 20, 2003 was filed under Item 5 Other Events concerning the Company's announcements that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act had expired, satisfying one of the conditions to the completion of the pending merger of Frontier and Holly and that the Federal Trade Commission approved Holly's pending acquisition from ConocoPhillips of the Woods Cross refinery.

On June 2, 2003, a Current Report on Form 8-K was filed under Item 5 Other Events and under Item 7 (c) Financial Statements and Exhibits concerning the Company's announcement that it had closed its acquisition of the Woods Cross refinery, located near Salt Lake City, Utah, and related assets from ConocoPhillips and that it has

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amended its Credit and Reimbursement Agreement with a group of banks headed by the Canadian Imperial Bank of Commerce, and increased the commitment level of the Agreement. Exhibits included the Company's press release issued June 2, 2003.

On June 4, 2003, a Current Report on Form 8-K dated June 1, 2003 was filed under Item 2 Acquisition or Disposition of Assets and under Item 7 Financial Statements and Exhibits concerning the acquisition of assets from ConocoPhillips of its Woods Cross refinery located near Salt Lake City, Utah. Exhibits included the Asset Purchase and Sale Agreement, dated December 20, 2002, between Holly and ConocoPhillips (incorporated by reference to Exhibit 10.1 to Holly's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2003) and Amendment No. 7, dated as of May 15, 2003, to Amended and Restated Credit and Reimbursement Agreement, dated April 14, 2000, as amended, among Holly, certain of its subsidiaries, CIBC and other lenders.

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SIGNATURE

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

HOLLY CORPORATION

(Registrant)

Date: September 8, 2003

By /s/ KATHRYN H. WALKER

Kathryn H. Walker
Vice President, Accounting

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(Principal Accounting Officer)

By /s/ STEPHEN J. MCDONNELL

Stephen J. McDonnell
Vice President and Chief Financial
Officer
(Principal Financial Officer)

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CERTIFICATION

I, Lamar Norsworthy, Chairman of the Board and Chief Executive Officer of Holly Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Holly Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 8, 2003

/s/ LAMAR NORSWORTHY

Lamar Norsworthy
Chairman of the Board and Chief
Executive Officer

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CERTIFICATION

I, Stephen J. McDonnell, Vice President and Chief Financial Officer of Holly Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Holly Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed,

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based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 8, 2003

/s/ STEPHEN J. MCDONNELL

Stephen J. McDonnell
Vice President and Chief
Financial Officer