

HollyFrontier Corp
Form 10-Q
August 08, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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

HOLLYFRONTIER CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: HollyFrontier Corp - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

75-1056913
(I.R.S. Employer
Identification No.)

2828 N. Harwood, Suite 1300

Dallas, Texas
(Address of principal executive offices)

75201
(Zip Code)

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

Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, Texas 75201-6915

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

105,030,510 shares of Common Stock, par value \$.01 per share, were outstanding on July 29, 2011.

Table of Contents

HOLLYFRONTIER CORPORATION

INDEX

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
<u>Forward-Looking Statements</u>	3
<u>Definitions</u>	4
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets June 30, 2011</u> <u>(Unaudited) and December 31, 2010</u>	6
<u>Consolidated Statements of Income (Unaudited)</u> <u>Three and Six Months Ended June 30, 2011 and 2010</u>	7
<u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>Six Months Ended June 30, 2011 and 2010</u>	8
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three and Six Months Ended June 30, 2011 and 2010</u>	9
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
<u>Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles</u>	49
Item 4. <u>Controls and Procedures</u>	56
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	57
Item 6. <u>Exhibits</u>	62
<u>Signatures</u>	63
<u>Index to Exhibits</u>	64

Table of Contents

PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

Holly Corporation (Holly) changed its name to HollyFrontier Corporation (HollyFrontier or HollyFrontier Corporation) in connection with the consummation of its merger of equals with Frontier Oil Corporation (Frontier), which became effective on July 1, 2011. References herein to HollyFrontier Corporation with respect to time periods through and including June 30, 2011 include Holly and its consolidated subsidiaries and do not include Frontier and its consolidated subsidiaries since the merger had not been consummated as of June 30, 2011, while references herein to HollyFrontier with respect to time periods from and after July 1, 2011 include Frontier and its consolidated subsidiaries. Unless otherwise specified, the financial statements included herein are as of and for the period ended June 30, 2011 and, thus, do not include financial information for Frontier. In accordance with the Securities and Exchange Commission's (SEC) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we, our, ours and us refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person. The words we, our, ours and us generally include Holly Energy Partners, L.P. (HEP) and its subsidiaries as consolidated subsidiaries of HollyFrontier with certain exceptions where there are transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

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

risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;

the demand for and supply of crude oil and refined products;

the spread between market prices for refined products and market prices for crude oil;

the possibility of constraints on the transportation of refined products;

the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;

effects of governmental and environmental regulations and policies;

the availability and cost of our financing;

the effectiveness of our capital investments and marketing strategies;

Edgar Filing: HollyFrontier Corp - Form 10-Q

our efficiency in carrying out construction projects;

our ability to acquire refined product operations or pipeline and terminal operations on acceptable terms and to integrate any existing or future acquired operations;

the possibility of terrorist attacks and the consequences of any such attacks;

general economic conditions;

our ability to successfully integrate the operations of Holly s and Frontier s businesses and to realize fully or at all the anticipated benefits of our merger of equals with Frontier; and

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

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of risk factors and other cautionary statements under the heading Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and in conjunction with the discussion in this Form 10-Q in Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Liquidity and Capital Resources. All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LPG means liquid petroleum gases.

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

Table of Contents

Lube extraction unit is a unit used in the lube process that separates aromatic oils from paraffinic oils using furfural as a solvent.

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

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

MMBTU means one million British thermal units.

MMSCFD means one million standard cubic feet per day.

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

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

PPM means parts-per-million.

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

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

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

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

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

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

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

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

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

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

Table of Contents**Item 1. Financial Statements****HOLLYFRONTIER CORPORATION****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents <i>(HEP: \$1,402 and \$403, respectively)</i>	\$ 426,689	\$ 229,101
Marketable securities	65,854	1,343
Accounts receivable: Product and transportation <i>(HEP: \$18,756 and \$22,508, respectively)</i>	363,585	299,081
Crude oil resales	639,942	694,035
	1,003,527	993,116
Inventories: Crude oil and refined products	444,733	353,636
Materials and supplies <i>(HEP: \$185 and \$202, respectively)</i>	50,567	46,731
	495,300	400,367
Income taxes receivable		51,034
Prepayments and other <i>(HEP: \$853 and \$573, respectively)</i>	33,604	28,474
Total current assets	2,024,974	1,703,435
Properties, plants and equipment, at cost <i>(HEP: \$575,259 and \$552,398, respectively)</i>	2,363,081	2,215,828
Less accumulated depreciation <i>(HEP: \$(73,790) and \$(60,300), respectively)</i>	(503,318)	(459,137)
	1,859,763	1,756,691
Marketable securities (long-term)	24,804	
Other assets: Turnaround costs	75,377	69,533
Goodwill <i>(HEP: \$81,602 and \$81,602)</i>	81,602	81,602
Intangibles and other <i>(HEP: \$74,241 and \$72,434, respectively)</i>	98,783	90,214
	255,762	241,349
Total assets	\$ 4,165,303	\$ 3,701,475
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable <i>(HEP: \$7,115 and \$10,238, respectively)</i>	\$ 1,450,640	\$ 1,317,446
Income taxes payable	23,002	
Accrued liabilities <i>(HEP: \$16,108 and \$21,206, respectively)</i>	83,951	72,409
Total current liabilities	1,557,593	1,389,855
Long-term debt <i>(HEP: \$510,566 and \$482,271, respectively)</i>	838,866	810,561
Deferred income taxes	128,465	131,935
Other long-term liabilities <i>(HEP: \$9,164 and \$10,809, respectively)</i>	81,191	80,985

Edgar Filing: HollyFrontier Corp - Form 10-Q

Equity:

HollyFrontier stockholders equity:

Preferred stock, \$1.00 par value	1,000,000 shares authorized; none issued		
Common stock \$.01 par value	160,000,000 shares authorized; 76,346,432 shares issued as of June 30, 2011 and December 31, 2010	763	763
Additional capital		193,411	194,378
Retained earnings		1,467,233	1,206,328
Accumulated other comprehensive loss		(26,091)	(26,246)
Common stock held in treasury, at cost	22,936,525 and 23,081,744 shares as of June 30, 2011 and December 31, 2010, respectively	(674,853)	(677,804)
Total HollyFrontier stockholders equity		960,463	697,419
Noncontrolling interest		598,725	590,720
Total equity		1,559,188	1,288,139
Total liabilities and equity		\$ 4,165,303	\$ 3,701,475

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (HEP) as of June 30, 2011 and December 31, 2010. HEP is a consolidated variable interest entity.

Holly Corporation changed its name to HollyFrontier Corporation in connection with the consummation of its merger of equals with Frontier Oil Corporation which became effective on July 1, 2011. The financial statements included herein are as of June 30, 2011 and do not include the financial position and operating results of Frontier Oil Corporation.

See accompanying notes.

Table of Contents**HOLLYFRONTIER CORPORATION****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Sales and other revenues	\$ 2,967,133	\$ 2,145,860	\$ 5,293,718	\$ 4,020,150
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	2,447,095	1,848,212	4,431,712	3,572,076
Operating expenses (exclusive of depreciation and amortization)	139,345	120,831	274,088	248,375
General and administrative expenses (exclusive of depreciation and amortization)	18,682	15,829	35,500	33,698
Depreciation and amortization	31,832	28,824	63,140	56,581
Total operating costs and expenses	2,636,954	2,013,696	4,804,440	3,910,730
Income from operations	330,179	132,164	489,278	109,420
Other income (expense):				
Equity in earnings of SLC Pipeline	467	544	1,207	1,025
Interest income	657	635	742	694
Interest expense	(15,193)	(21,023)	(31,397)	(38,745)
Merger transaction costs	(2,316)		(6,014)	
	(16,385)	(19,844)	(35,462)	(37,026)
Income before income taxes	313,794	112,320	453,816	72,394
Income tax provision:				
Current	115,051	34,561	164,540	39,922
Deferred	(3,090)	5,093	(3,568)	(16,940)
	111,961	39,654	160,972	22,982
Net income	201,833	72,666	292,844	49,412
Less net income attributable to noncontrolling interest	9,598	6,504	15,915	11,344
Net income attributable to HollyFrontier stockholders	\$ 192,235	\$ 66,162	\$ 276,929	\$ 38,068
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$ 3.60	\$ 1.24	\$ 5.19	\$ 0.72
Diluted	\$ 3.58	\$ 1.24	\$ 5.16	\$ 0.71

Edgar Filing: HollyFrontier Corp - Form 10-Q

Cash dividends declared per common share	\$	0.15	\$	0.15	\$	0.30	\$	0.30
--	----	------	----	------	----	------	----	------

Average number of common shares outstanding:

Basic	53,365	53,206	53,336	53,152
Diluted	53,670	53,408	53,643	53,375

See accompanying notes.

- 7 -

Table of Contents**HOLLYFRONTIER CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 292,844	\$ 49,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,140	56,581
SLC Pipeline earnings, net of distributions	(82)	100
Deferred income taxes	(3,568)	(16,940)
Equity based compensation expense	5,562	5,440
Change in fair value derivative instruments	7,155	1,464
(Increase) decrease in current assets:		
Accounts receivable	(10,411)	(314)
Inventories	(94,933)	(117,633)
Income taxes receivable	51,034	38,072
Prepayments and other	(13,088)	(16,828)
Current assets of discontinued operations		2,195
Increase (decrease) in current liabilities:		
Accounts payable	133,154	34,863
Income taxes payable	23,002	
Accrued liabilities	16,712	5,441
Turnaround expenditures	(19,824)	(8,723)
Other, net	7,299	5,216
Net cash provided by operating activities	457,996	38,346
Cash flows from investing activities:		
Additions to properties, plants and equipment	(133,405)	(72,043)
Additions to properties, plants and equipment HEP	(22,900)	(4,487)
Investment in Sabine Biofuels	(9,125)	
Purchases of marketable securities	(157,782)	
Sales and maturities of marketable securities	68,150	
Net cash used for investing activities	(255,062)	(76,530)
Cash flows from financing activities:		
Borrowings under credit agreement		310,000
Repayments under credit agreement		(310,000)
Borrowings under credit agreement HEP	64,000	39,000
Repayments under credit agreement HEP	(37,000)	(90,000)
Proceeds from issuance of senior notes HEP		147,540
Repayments under financing obligation	(563)	(415)
Purchase of treasury stock	(2,996)	(1,308)
Contribution from joint venture partner	16,500	5,000
Dividends	(15,984)	(15,901)

Edgar Filing: HollyFrontier Corp - Form 10-Q

Distributions to noncontrolling interest	(25,133)	(23,933)
Excess tax benefit (expense) from equity based compensation	498	(1,313)
Purchase of units for restricted grants HEP	(1,379)	(2,276)
Deferred financing costs	(3,289)	(2,655)
Issuance of common stock upon exercise of options		61
Net cash provided by (used for) financing activities	(5,346)	53,800
Cash and cash equivalents:		
Increase for the period	197,588	15,616
Beginning of period	229,101	124,596
End of period	\$ 426,689	\$ 140,212
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 34,264	\$ 31,449
Income taxes	\$ 89,935	\$ 1,043
See accompanying notes.		

Table of Contents**HOLLYFRONTIER CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income	\$ 201,833	\$ 72,666	\$ 292,844	\$ 49,412
Other comprehensive income (loss):				
Securities available-for-sale:				
Unrealized gain (loss) on available-for-sale securities	(525)	(251)	(383)	(7)
Reclassification adjustment to net income on sale or maturity of marketable securities	66		66	
Total unrealized gain (loss) on available-for-sale securities	(459)	(251)	(317)	(7)
Hedging instruments:				
Change in fair value of cash flow hedging instruments	271	(1,696)	1,592	(3,057)
Reclassification adjustment to net income on settlement of cash flow hedging instruments		1,076		1,076
Total unrealized gain (loss) on hedging instruments	271	(620)	1,592	(1,981)
Other comprehensive income (loss) before income taxes	(188)	(871)	1,275	(1,988)
Income tax expense (benefit)	(144)	(180)	98	138
Other comprehensive income (loss)	(44)	(691)	1,177	(2,126)
Total comprehensive income	201,789	71,975	294,021	47,286
Less noncontrolling interest in comprehensive income	9,776	6,097	16,935	9,001
Comprehensive income attributable to HollyFrontier stockholders	\$ 192,013	\$ 65,878	\$ 277,086	\$ 38,285

See accompanying notes.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

Holly Corporation (Holly) changed its name to HollyFrontier Corporation (HollyFrontier or HollyFrontier Corporation) in connection with the consummation of its merger of equals with Frontier Oil Corporation (Frontier), which became effective on July 1, 2011 (see Note 2). All previous references to Holly within these financial statements have been replaced with HollyFrontier. References herein to HollyFrontier Corporation with respect to time periods through and including June 30, 2011 include Holly and its consolidated subsidiaries and do not include Frontier and its consolidated subsidiaries since the merger had not been consummated as of June 30, 2011, while references herein to HollyFrontier with respect to time periods from and after July 1, 2011 include Frontier and its consolidated subsidiaries. Unless otherwise specified, the financial statements included herein are as of and for the period ended June 30, 2011 and, thus, do not include financial information for Frontier. In accordance with the Securities and Exchange Commission's (SEC) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we, our, ours and us refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person. The words we, our, ours and us generally include HEP and its subsidiaries as consolidated subsidiaries of HollyFrontier with certain exceptions where there are transactions or obligations between HEP and HollyFrontier or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

As of June 30, 2011, we:

owned and operated three refineries consisting of a petroleum refinery in Artesia, New Mexico that is operated in conjunction with crude oil distillation and vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the Navajo Refinery), a refinery in Woods Cross, Utah (the Woods Cross Refinery) and our two refinery facilities located in Tulsa, Oklahoma (collectively, the Tulsa Refinery);

owned and operated NK Asphalt Partners (NK Asphalt) which operates various asphalt terminals in Arizona, New Mexico and Texas;

owned a 75% interest in a 12-inch refined products pipeline project, under construction, from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas (the UNEV Pipeline);

owned a 50% interest in a development stage biodiesel production facility to be located in Port Arthur, Texas, and Sabine Biofuels II, LLC, (Sabine Biofuels);

owned a 34% interest in HEP, a consolidated variable interest entity (VIE), which includes our 2% general partner interest. HEP has logistic assets including petroleum product and crude oil pipelines located in Texas, New Mexico, Oklahoma and Utah; ten refined product terminals; a jet fuel terminal; loading rack facilities at each of our three refineries, a refined products tank farm facility and on-site crude oil tankage at our Navajo, Woods Cross and Tulsa Refineries. Additionally, HEP owns a 25% interest in SLC Pipeline LLC (SLC Pipeline), a new 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

We have prepared these consolidated financial statements without audit. In management's opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of June 30, 2011, the consolidated results of operations and comprehensive income for the three and the six months ended June 30, 2011 and 2010 and consolidated cash flows for the six months ended June 30, 2011 and 2010 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States (GAAP) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These

Edgar Filing: HollyFrontier Corp - Form 10-Q

consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC.

- 10 -

Table of Contents

Beginning July 1, 2011, our business operations will reflect the merged Frontier businesses (see Note 2). Our results of operations for the first six months of 2011 are not necessarily indicative of the results to be expected for the full year.

Accounts Receivable

Our accounts receivable consist of amounts due from customers that are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer's financial condition and in certain circumstances, collateral, such as a letter of credit or guarantee, is required. Our credit losses, which historically have been minimal are charged to income when accounts are deemed uncollectible. At June 30, 2011, our allowance for doubtful accounts reserve was \$2.6 million.

Inventories

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

NOTE 2: Holly-Frontier Merger

On February 21, 2011, we entered into a merger agreement providing for a merger of equals business combination between us and Frontier. On July 1, 2011, North Acquisition, Inc., a direct wholly-owned subsidiary of Holly, merged with and into Frontier, with Frontier surviving as a wholly-owned subsidiary of Holly. Concurrent with the merger, we changed our name to HollyFrontier Corporation and changed the trading symbol for our common stock traded on the New York Stock Exchange to HFC. Subsequent to the merger and following approval by the post-closing board of directors of HollyFrontier, Frontier merged with and into HollyFrontier, with HollyFrontier continuing as the surviving corporation.

In accordance with the merger agreement, we issued approximately 51.4 million shares of HollyFrontier common stock in exchange for outstanding shares of Frontier common stock to former Frontier stockholders. Each outstanding share of Frontier common stock was converted into 0.4811 shares of HollyFrontier common stock with any fractional shares paid in cash. Based on the July 1, 2011 market closing price of \$71.86, the aggregate equity consideration paid in connection with the merger was approximately \$3.7 billion.

The merger will be accounted for using the acquisition method of accounting with Holly being considered the acquirer of Frontier for accounting purposes. Therefore, the purchase price shall be allocated to the fair value of the acquired Frontier tangible and intangible assets and liabilities at the acquisition date, with the excess purchase price being recorded as goodwill. Due to the short timeframe between the consummation of the merger and filing this Quarterly Report on Form 10-Q, we have not completed the detailed valuation studies necessary to arrive at the required fair value estimates of the acquired Frontier assets, the liabilities assumed and the related purchase price allocations.

Beginning July 1, 2011, HollyFrontier's consolidated financial and operating results will reflect the operations of the merged Frontier businesses. This includes a refinery located in El Dorado, Kansas (the El Dorado Refinery) and a refinery located in Cheyenne, Wyoming (the Cheyenne Refinery) that serve markets in the Rocky Mountain and Plains States regions of the United States. Assuming the merger had been consummated on January 1, 2010, the beginning of the earliest period presented, pro forma revenues, net income and basic earnings per share are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Sales and other revenues	\$ 5,037,660	\$ 3,694,740	\$ 9,272,899	\$ 6,841,174
Net income attributable to HollyFrontier stockholders	\$ 368,375	\$ 140,351	\$ 601,791	\$ 80,494
Basic earnings per share	\$ 3.52	\$ 1.34	\$ 5.74	\$ 0.77
Diluted earnings per share	\$ 3.50	\$ 1.34	\$ 5.72	\$ 0.77

Table of Contents

The pro forma financial information above reflects adjustments that primarily relate to depreciation and amortization expense and are based on management's preliminary fair value estimates including useful life assumptions on the Frontier property, plant and equipment and intangible assets. These estimates are preliminary in nature and are expected to change following the completion of our valuation of the Frontier assets and liabilities. Such changes could be material.

As of June 30, 2011, we have recognized \$6 million in merger transaction costs that are presented separately in our income statements and primarily relate to legal, advisory and other professional fees incurred since the announcement of our merger agreement in 2011. This does not include post-merger transaction costs including fees contingent upon the merger closing as well as costs to integrate the operations of the combined company.

NOTE 3: Holly Energy Partners

HEP, a consolidated VIE, is a publicly held master limited partnership that was formed to acquire, own and operate the petroleum product and crude oil pipeline and terminal, tankage and loading rack facilities that support our refining and marketing operations in west Texas, New Mexico, Utah, Oklahoma, Idaho and Arizona. HEP also owns and operates refined product pipelines and terminals, located primarily in Texas, that service Alon USA, Inc.'s (Alon) refinery in Big Spring, Texas.

As of June 30, 2011, we owned a 34% interest in HEP, including the 2% general partner interest. We are HEP's primary beneficiary and therefore we consolidate HEP. See Note 17 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated financial statements. All intercompany transactions with HEP are eliminated in our consolidated balances.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 74% of HEP's total revenues for the six months ended June 30, 2011. We do not provide financial or equity support through any liquidity arrangements and/or guarantees to HEP.

HEP has outstanding debt under a senior secured revolving credit agreement and its senior notes. With the exception of the assets of HEP Logistics Holdings, L.P., one of our wholly-owned subsidiaries and HEP's general partner, HEP's creditors have no recourse to our assets. Any recourse to HEP's general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries. See Note 10 for a description of HEP's debt obligations.

We have pledged 6,000,000 of our HEP common units to collateralize certain crude oil purchases in 2011.

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

Table of Contents

2010 Tulsa East / Lovington Storage Asset Transaction

On March 31, 2010, HEP acquired from us certain storage assets for \$93 million, consisting of hydrocarbon storage tanks having approximately 2 million barrels of storage capacity, a rail loading rack and a truck unloading rack located at our Tulsa Refinery east facility and an asphalt loading rack facility located at our Navajo Refinery facility located in Lovington, New Mexico.

Transportation Agreements

HEP serves our refineries in New Mexico, Utah and Oklahoma under the following long-term pipeline and terminal, tankage and throughput agreements:

HEP PTA (pipelines and terminals throughput agreement expiring in 2019 that relates to the pipelines and terminal assets that we contributed to HEP upon its initial public offering in 2004);

HEP IPA (intermediate pipelines throughput agreement expiring in 2024 that relates to the intermediate pipelines sold to HEP in 2005 and 2009);

HEP CPTA (crude pipelines and tankage throughput agreement expiring in 2023 that relates to the crude pipelines and tankage assets sold to HEP in 2008);

HEP PTTA (pipeline, tankage and loading rack throughput agreement expiring in 2024 that relates to the Tulsa east storage tank and loading rack facilities acquired in 2009 and 2010);

HEP RPA (pipeline throughput agreement expiring in 2024 that relates to the Roadrunner Pipeline sold to HEP in 2009);

HEP ETA (equipment and throughput agreement expiring in 2024 that relates to the Tulsa west loading rack facilities sold to HEP in 2009);

HEP NPA (natural gas pipeline throughput agreement expiring in 2024); and

HEP ATA (loading rack throughput agreement expiring in 2025 that relates to the Lovington asphalt loading rack facility sold to HEP in March 2010).

Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP. These minimum annual payments are subject to annual tariff rate adjustments on July 1, based on the Producer Price Index (PPI) or Federal Energy Regulatory Commission (FERC) index, but with the exception of the HEP IPA, generally will not decrease as a result of a decrease in the PPI or FERC index. As of July 1, 2011, these agreements result in minimum annualized payments to HEP of \$140 million.

NOTE 4: Financial Instruments

Our financial instruments consist of cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable, debt and derivative instruments. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments.

Edgar Filing: HollyFrontier Corp - Form 10-Q

As of June 30, 2011, debt consisted of borrowings outstanding under HEP's \$275 million revolving credit agreement (the HEP Credit Agreement), our 9.875% senior notes due 2017 (the HollyFrontier 9.875% Senior Notes), HEP's 6.25% senior notes due 2015 (the HEP 6.25% Senior Notes) and HEP's 8.25% senior notes due 2018 (the HEP 8.25% Senior Notes). The \$186 million carrying amount of borrowings outstanding under the HEP Credit Agreement approximates fair value as interest rates are reset frequently using current interest rates. At June 30, 2011, the estimated fair values of the HollyFrontier 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes were \$333.8 million, \$184.1 million and \$159.4 million, respectively. These fair value estimates are based on market quotes provided from a third-party bank. See Note 10 for additional information on these debt instruments.

- 13 -

Table of Contents

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

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

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

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

Our investments in marketable securities are measured at fair value using quoted market prices, a Level 1 input. See Note 7 for additional information on our investments in marketable securities, including fair value measurements.

We have commodity price swaps and HEP has an interest rate swap that is measured at fair value on a recurring basis using Level 2 inputs. With respect to these instruments, fair value is based on the net present value of expected future cash flows related to both variable and fixed rate legs of the respective swap agreements. The measurements are computed using market-based observable inputs, quoted forward commodity prices with respect to our commodity price swaps and the forward London Interbank Offered Rate (LIBOR) yield curve with respect to HEP s interest rate swap. See Note 11 for additional information on these swap contracts, including fair value measurements.

NOTE 5: Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Earnings attributable to HollyFrontier stockholders	\$ 192,235	\$ 66,162	\$ 276,929	\$ 38,068
Average number of shares of common stock outstanding	53,365	53,206	53,336	53,152
Effect of dilutive stock options, variable restricted shares and performance share units	305	202	307	223
Average number of shares of common stock outstanding assuming dilution	53,670	53,408	53,643	53,375
Basic earnings per share	\$ 3.60	\$ 1.24	\$ 5.19	\$ 0.72
Diluted earnings per share	\$ 3.58	\$ 1.24	\$ 5.16	\$ 0.71

NOTE 6: Stock-Based Compensation

Edgar Filing: HollyFrontier Corp - Form 10-Q

On June 30, 2011, we had two principal share-based compensation plans that are described below (collectively, the Long-Term Incentive Compensation Plan). The compensation cost that has been charged against income for these plans was \$3.4 million and \$2.2 million for the three months ended June 30, 2011 and 2010, respectively, and \$4.5 million and \$4.1 million for the six months ended June 30, 2011 and 2010, respectively.

- 14 -

Table of Contents

The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$1.3 million and \$0.8 million for the three months ended June 30, 2011 and 2010, respectively, and \$1.8 million and \$1.6 million for the six months ended June 30, 2011 and 2010 respectively. Our current accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs pro-rata over the vesting periods.

Additionally, HEP maintains share-based compensation plans for HEP directors and select Holly Logistic Services, L.L.C. executives and employees. Compensation cost attributable to HEP's share-based compensation plans was \$0.4 million and \$0.3 million for the three months ended June 30, 2011 and 2010, respectively, and \$1.1 million and \$1.3 million for the six months ended June 30, 2011 and 2010, respectively.

Restricted Stock

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

A summary of restricted stock activity and changes during the six months ended June 30, 2011 is presented below:

Restricted Stock	Grants	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2011 (non-vested)	346,996	\$ 29.31	
Vesting and transfer of ownership to recipients	(158,528)	31.18	
Granted	102,710	58.23	
Forfeited	(12,965)	52.02	
Outstanding at June 30, 2011 (non-vested)	278,213	\$ 37.86	\$ 16,904

The total fair value of restricted stock vested and transferred to recipients during the six months ended June 30, 2011 and 2010 was \$4.9 million and \$4.2 million, respectively. As of June 30, 2011, there was \$5.5 million of total unrecognized compensation cost related to non-vested restricted stock grants. That cost is expected to be recognized over a weighted-average period of 1 years.

Performance Share Units

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

The fair value of each performance share unit award is computed using the grant date closing stock price of each respective award grant and will apply to the number of units ultimately awarded. The number of shares ultimately issued for each award will be based on our financial performance as compared to peer group companies over the performance period and can range from zero to 200%. As of June 30, 2011, estimated share payouts for outstanding non-vested performance share unit awards ranged from 150% to 175%.

Table of Contents

A summary of performance share unit activity and changes during the six months ended June 30, 2011 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2011 (non-vested)	278,093
Vesting and transfer of ownership to recipients	(53,962)
Granted	61,491
Outstanding at June 30, 2011 (non-vested)	285,622

For the six months ended June 30, 2011, we issued 75,007 shares of our common stock having a fair value of \$2.6 million related to vested performance share units, representing a 139% payout. Based on the weighted average grant date fair value of \$32.86, there was \$8.2 million of total unrecognized compensation cost related to non-vested performance share units. That cost is expected to be recognized over a weighted-average period of 1.3 years.

NOTE 7: Cash and Cash Equivalents and Investments in Marketable Securities

Our investment portfolio at June 30, 2011, consisted of cash, cash equivalents and investments in debt securities primarily issued by government entities. We also hold 1,000,000 shares of Connacher Oil and Gas Limited common stock that were received as partial consideration upon our sale of our Montana refinery in 2006.

We invest in highly-rated marketable debt securities, primarily issued by government entities that have maturities at the date of purchase of greater than three months. We also invest in other marketable debt securities with the maximum maturity of any individual issue not greater than two years from the date of purchase. All of these instruments including investments in equity securities are classified as available-for-sale, and as a result, are reported at fair value using quoted market prices. Interest income is recorded as earned. Unrealized gains and losses, net of related income taxes, are considered temporary and are reported as a component of accumulated other comprehensive income. For investments in an unrealized loss position that are determined to be other than temporary, unrealized losses are reclassified out of accumulated other comprehensive income and into earnings as an impairment loss. Upon sale, realized gains and losses on the sale of marketable securities are computed based on the specific identification of the underlying cost of the securities sold and the unrealized gains and losses previously reported in other comprehensive income are reclassified to current earnings.

The following is a summary of our available-for-sale securities:

	Available-for-Sale Securities		
	Amortized Cost	Gross Unrealized Gain (Loss) (In thousands)	Estimated Fair Value (Net Carrying Amount)
June 30, 2011			
Marketable debt securities (state and political subdivisions)	\$ 89,632	\$ (69)	\$ 89,563
Equity securities	610	485	1,095
Total marketable securities	\$ 90,242	\$ 416	\$ 90,658
December 31, 2010			
Equity securities	\$ 610	\$ 733	\$ 1,343

Edgar Filing: HollyFrontier Corp - Form 10-Q

For the six months ended June 30, 2011, we invested \$157.8 million in marketable debt securities and received a total of \$68.2 million related to sales and maturities of our investments in marketable debt securities.

- 16 -

Table of Contents**NOTE 8: Inventories**

Inventory consists of the following components:

	June 30, 2011	December 31, 2010
	(In thousands)	
Crude oil	\$ 179,650	\$ 96,570
Other raw materials and unfinished products ⁽¹⁾	56,677	68,792
Finished products ⁽²⁾	208,406	188,274
Process chemicals ⁽³⁾	22,576	22,512
Repairs and maintenance supplies and other	27,991	24,219
Total inventory	\$ 495,300	\$ 400,367

- (1) Other raw materials and unfinished products include feedstocks and blendstocks, other than crude.
(2) Finished products include gasolines, jet fuels, diesels, lubricants, asphalts, LPG's and residual fuels.
(3) Process chemicals include catalysts, additives and other chemicals.

NOTE 9: Environmental

Consistent with our accounting policy for environmental remediation costs, we expensed \$0.1 million for the three months ended June 30, 2011 and 2010 and \$0.1 million and \$1.5 million for the six months ended June 30, 2011 and 2010, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was \$23.4 million and \$26.2 million at June 30, 2011 and December 31, 2010, respectively, of which \$17.8 million and \$20.4 million, respectively, were classified as other long-term liabilities. Costs of future expenditures for environmental remediation that are expected to be incurred over the next several years are not discounted to their present value.

NOTE 10: Debt***Credit Facilities***

On July 1, 2011, we entered into a \$1 billion senior secured credit agreement (the "HollyFrontier credit Agreement") with Union Bank, N.A. as administrative agent and BNP Paribas as syndication agent, and certain lenders from time to time party thereto, and terminated our previous credit agreement discussed below. The HollyFrontier Credit Agreement matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes.

At June 30, 2011, we had a \$400 million senior secured credit agreement expiring in March 2013 with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. We were in compliance with all covenants at June 30, 2011. At June 30, 2011, we had no outstanding borrowings and outstanding letters of credit totaling \$76.8 million. At that level of usage, the unused commitment was \$323.2 million at June 30, 2011.

The \$275 million HEP Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. In February 2011, HEP amended its previous credit agreement (expiring in August 2011), extending the expiration date and slightly reducing the size of the credit facility from \$300 million to \$275 million. The size was reduced based on management's review of past and forecasted utilization of the facility. The HEP Credit Agreement expires in February 2016; however, in the event that the HEP 6.25% Senior Notes (discussed below) are not repurchased, refinanced, extended or repaid prior to September 1, 2014, the HEP Credit Agreement shall expire on that date.

Edgar Filing: HollyFrontier Corp - Form 10-Q

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets (presented parenthetically in our Consolidated Balance Sheets). Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's material, wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics

- 17 -

Table of Contents

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

HollyFrontier Senior Notes Due 2017

Our \$300 million 9.875% Senior Notes mature in June 2017 and are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. At any time when the HollyFrontier 9.875% Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the HollyFrontier 9.875% Senior Notes.

HEP Senior Notes Due 2018 and 2015

In March 2010, HEP issued \$150 million in aggregate principal amount of 8.25% Senior Notes which mature in March 2018. A portion of the \$147.5 million in net proceeds received was used to fund HEP's \$93 million purchase of certain storage assets at our Tulsa Refinery east facility and Navajo Refinery Lovington facility on March 31, 2010. Additionally, HEP used a portion to repay \$42 million in outstanding HEP Credit Agreement borrowings, with the remaining proceeds available for general partnership purposes, including working capital and capital expenditures.

The HEP 6.25% Senior Notes having an aggregate principal amount of \$185 million outstanding mature in March 2015 and are registered with the SEC. The HEP 6.25% Senior Notes and HEP 8.25% Senior Notes (collectively, the "HEP Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

Indebtedness under the HEP Senior Notes is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. However, any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. HEP's creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Financing Obligation

In October 2009, we sold approximately 400,000 barrels of crude oil tankage at our Tulsa Refinery west facility as well as certain crude oil pipeline receiving facilities to Plains All American Pipeline, L.P. ("Plains") for \$40 million in cash. In connection with this transaction, we entered into a 15-year lease agreement with Plains, whereby we agreed to pay a fixed monthly fee for the exclusive use of this tankage as well as a fee for volumes received at the receiving facilities purchased by Plains. Additionally, we have a margin sharing agreement with Plains under which we will equally share contango profits for crude oil purchased by them and delivered to our Tulsa Refinery west facility for storage. Due to our continuing involvement in these assets, this transaction has been accounted for as a financing obligation. As a result, we retained these assets on our books and recorded a liability representing the \$40 million in proceeds received.

Table of Contents

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

	June 30, 2011	December 31, 2010
	(In thousands)	
HollyFrontier 9.875% Senior Notes		
Principal	\$ 300,000	\$ 300,000
Unamortized discount	(9,918)	(10,491)
	290,082	289,509
HollyFrontier financing obligation		
Principal	38,218	38,781
Total HollyFrontier long-term debt	328,300	328,290
HEP Credit Agreement	186,000	159,000
HEP 6.25% Senior Notes		
Principal	185,000	185,000
Unamortized discount	(9,646)	(10,961)
Unamortized premium dedesignated fair value hedge	1,271	1,444
	176,625	175,483
HEP 8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(2,059)	(2,212)
	147,941	147,788
Total HEP long-term debt	510,566	482,271
Total long-term debt	\$ 838,866	\$ 810,561

We capitalized interest attributable to construction projects of \$4.3 million and \$0.6 million for the three months ended June 30, 2011 and 2010, respectively, and \$7.9 million and \$1.9 million for the six months ended June 30, 2011 and 2010, respectively.

NOTE 11: Derivative Instruments and Hedging Activities
Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations.

We periodically enter into derivative contracts in the form of commodity price swaps to mitigate price exposure with respect to:

our inventory positions;

natural gas purchases;

costs of crude oil;

prices of refined products; and

our refining margins.

As of June 30, 2011, we have outstanding commodity price swap contracts serving as economic hedges to protect the value of temporary inventory builds of 210,000 barrels against price volatility and to lock in the spread between WTS and WTI crude oil with respect to forecasted purchases of 3.5 million barrels of crude oil. These contracts are measured quarterly at fair value with offsetting adjustments (gains / losses) recorded directly to cost of products sold.

Table of Contents**Interest Rate Risk Management**

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

As of June 30, 2011, HEP has an interest rate swap that hedges its exposure to the cash flow risk caused by the effects of LIBOR changes on a \$155 million HEP Credit Agreement advance. This interest rate swap effectively converts \$155 million of LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 2.50%, which equaled an effective interest rate of 6.24% as of June 30, 2011. This interest rate swap contract has been designated as a cash flow hedge and matures in February 2013.

This contract initially hedged variable LIBOR interest on \$171 million in outstanding HEP Credit Agreement debt. In May 2010, HEP repaid \$16 million of the HEP Credit Agreement debt and also settled a corresponding portion of its interest rate swap agreement having a notional amount of \$16 million for \$1.1 million. Upon payment, HEP reduced its swap liability and reclassified a \$1.1 million charge from accumulated other comprehensive loss to interest expense, representing the application of hedge accounting prior to settlement.

The following table presents balance sheet locations and related fair values of outstanding derivative instruments.

Derivative Instruments	Balance Sheet		Location of Offsetting	
	Location	Fair Value (Dollars in thousands)	Balance	Offsetting Amount
June 30, 2011				
<i>Derivative designated as cash flow hedging instrument:</i>				
Variable-to-fixed interest rate swap contract (\$155 million LIBOR based debt interest payments)	Other long-term liabilities	\$ 8,472	Accumulated other comprehensive loss	\$ 8,472
<i>Derivatives not designated as hedging instruments:</i>				
Variable-to-fixed commodity price swap contracts (various inventory positions)	Prepayments and other current assets	\$ 7,958	Cost of products sold (decrease)	\$ 7,958
Fixed/variable-to-variable/fixed commodity price contracts (various inventory positions)	Accrued liabilities	\$ 1,300	Cost of products sold (increase)	\$ 1,300

Derivative Instruments	Balance Sheet		Location of Offsetting	
	Location	Fair Value (Dollars in thousands)	Balance	Offsetting Amount
December 31, 2010				
<i>Derivatives designated as cash flow hedging instruments:</i>				
Variable-to-fixed commodity price swap contracts (forecasted volumes of natural gas purchases)	Accrued liabilities	\$ 38	Accumulated other comprehensive loss	\$ 38
Variable-to-fixed interest rate swap contract (\$155 million LIBOR based debt interest payments)	Other long-term liabilities	\$ 10,026	Accumulated other comprehensive loss	\$ 10,026

Derivatives not designated as hedging instruments:

Edgar Filing: HollyFrontier Corp - Form 10-Q

Fixed-to-variable rate swap contracts (various inventory positions)	Accrued liabilities	\$	497	Cost of products sold (increase)	\$	497
---	---------------------	----	-----	----------------------------------	----	-----

For the three and the six months ended June 30, 2011, maturities and fair value adjustments attributable to our economic hedges resulted in a \$3 million decrease and a \$0.7 million increase, respectively, to costs of products sold.

For the three and six months ended June 30, 2010, HEP recognized \$1.5 million in charges to interest expense as a result of fair value changes to interest rate swap contracts that were settled in the first quarter of 2010.

- 20 -

Table of Contents**NOTE 12: Equity**

Changes to equity during the six months ended June 30, 2011 are presented below:

	HollyFrontier Stockholders Equity	Noncontrolling Interest (In thousands)	Total Equity
Balance at December 31, 2010	\$ 697,419	\$ 590,720	\$ 1,288,139
Net income	276,929	15,915	292,844
Dividends	(16,024)		(16,024)
Distributions to noncontrolling interest holders		(25,133)	(25,133)
Other comprehensive income	157	1,020	1,177
Contribution from joint venture partner		16,500	16,500
Equity based compensation	4,480	1,082	5,562
Excess tax benefit on equity based compensation arrangements	498		498
Purchase of HEP units for restricted grants		(1,379)	(1,379)
Purchase of treasury stock ⁽¹⁾	(2,996)		(2,996)
Balance at June 30, 2011	\$ 960,463	\$ 598,725	\$ 1,559,188

(1) Includes 56,813 shares purchased under the terms of restricted stock agreements to provide funds for the payment of payroll and income taxes due at vesting of restricted stock.

During the six months ended June 30, 2011, we repurchased shares of our common stock at market price from certain executives and employees costing \$3 million. These purchases were made under the terms of restricted stock and performance share unit agreements to provide funds for the payment of payroll and income taxes due at the vesting of restricted and performance shares in the case of officers and employees who did not elect to satisfy such taxes by other means.

NOTE 13: Other Comprehensive Income (Loss)

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

	Before-Tax	Tax Expense (Benefit) (In thousands)	After-Tax
Three Months Ended June 30, 2011			
Unrealized loss on available-for-sale securities	\$ (459)	\$ (179)	\$ (280)
Unrealized gain on hedging activities	271	35	236
Other comprehensive loss	(188)	(144)	(44)
Less other comprehensive income attributable to noncontrolling interest	178		178
Other comprehensive loss attributable to HollyFrontier stockholders	\$ (366)	\$ (144)	\$ (222)

Edgar Filing: HollyFrontier Corp - Form 10-Q

Three Months Ended June 30, 2010			
Unrealized loss on available-for-sale securities	\$ (251)	\$ (98)	\$ (153)
Unrealized loss on hedging activities	(620)	(82)	(538)
Other comprehensive loss	(871)	(180)	(691)
Less other comprehensive loss attributable to noncontrolling interest	(407)		(407)
Other comprehensive loss attributable to HollyFrontier stockholders	\$ (464)	\$ (180)	\$ (284)
Six Months Ended June 30, 2011			
Unrealized loss on available-for-sale securities	\$ (317)	\$ (124)	\$ (193)
Unrealized gain on hedging activities	1,592	222	1,370
Other comprehensive income	1,275	98	1,177
Less other comprehensive income attributable to noncontrolling interest	1,020		1,020
Other comprehensive income attributable to HollyFrontier stockholders	\$ 255	\$ 98	\$ 157

- 21 -

Table of Contents

	Before-Tax	Tax Expense (Benefit) (In thousands)	After-Tax
Six Months Ended June 30, 2010			
Unrealized loss on available-for-sale securities	\$ (7)	\$ (4)	\$ (3)
Unrealized loss on hedging activities	(1,981)	142	(2,123)
Other comprehensive loss	(1,988)	138	(2,126)
Less other comprehensive loss attributable to noncontrolling interest	(2,343)		(2,343)
Other comprehensive income attributable to HollyFrontier stockholders	\$ 355	\$ 138	\$ 217

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

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

	June 30, 2011	December 31, 2010
	(In thousands)	
Pension obligation adjustment	\$ (22,672)	\$ (22,672)
Retiree medical obligation adjustment	(1,894)	(1,894)
Unrealized gain on available-for-sale securities	258	451
Unrealized loss on hedging activities, net of noncontrolling interest	(1,783)	(2,131)
Accumulated other comprehensive loss	\$ (26,091)	\$ (26,246)

NOTE 14: Retirement Plan

We have a non-contributory defined benefit retirement plan that covers most of our non-union employees hired prior to January 1, 2007 and union employees prior to July 1, 2010. Our policy is to make contributions annually of not less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Benefits are based on the employee's years of service and compensation.

The retirement plan is closed to all new employees. To the extent an employee was hired prior to the plan closing date (January 1, 2007 for non-union employees and July 1, 2010 for union employees) and elected to participate in automatic contributions features under our defined contribution plan, their participation in future benefits of the retirement plan has been frozen.

The net periodic pension expense consisted of the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Service cost benefit earned during the period	\$ 1,268	\$ 1,156	\$ 2,535	\$ 2,298
Interest cost on projected benefit obligations	1,281	1,291	2,562	2,577
Expected return on plan assets	(1,339)	(1,164)	(2,678)	(2,288)
Amortization of prior service cost	97	98	195	195

Edgar Filing: HollyFrontier Corp - Form 10-Q

Amortization of net loss	533	474	1,066	1,098
Net periodic pension expense	\$ 1,840	\$ 1,855	\$ 3,680	\$ 3,880

The expected long-term annual rate of return on plan assets is 8.5%. This rate was used in measuring 2011 and 2010 net periodic benefit cost. We expect to contribute \$10 million to the retirement plan in 2011.

- 22 -

Table of Contents**NOTE 15: Contingencies**

In May 2007, the United States Court of Appeals for the District of Columbia Circuit (Court of Appeals) issued its decision on petitions for review, brought by us and other parties, concerning rulings by the FERC in proceedings brought by us and other parties against SFPP, L.P. (SFPP). These proceedings relate to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. We are one of several refiners that regularly utilize the SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona on SFPP's East Line. The Court of Appeals in its May 2007 decision approved a FERC position, which is adverse to us, on the treatment of income taxes in the calculation of allowable rates for pipelines operated by partnerships and ruled in our favor on an issue relating to our rights to reparations when it is determined that certain tariffs we paid to SFPP in the past were too high. The case was remanded to FERC and consolidated with other cases that together addressed SFPP's rates for the period from January 1992 through May 2006. In 2003 we received an initial payment of \$15.3 million from SFPP as reparations for the period from 1992 through July 2000. On April 16, 2010, a settlement among us, SFPP, and other shippers was filed with FERC for its approval. FERC approved the settlement on May 28, 2010. Pursuant to the settlement, we received an additional settlement payment of \$8.6 million. This settlement finally resolves the amount of additional payments SFPP owes us for the period January 1992 through May 2006.

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

On June 2, 2009, SFPP notified us that it would terminate the October 22, 2008 settlement, as provided under the settlement, effective August 31, 2009. On July 31, 2009, SFPP filed substantial rate increases for East Line service to become effective September 1, 2009. We and several other shippers filed protests at the FERC challenging the rate increase and asking the FERC to suspend the effectiveness of the increased rates. On August 31, 2009, the FERC issued an order suspending the effective date of the rate increase until January 1, 2010, on which date the rate increase was placed into effect subject to refund, and setting the rate increase for a full evidentiary hearing to be held in 2010. SFPP subsequently reduced its rates for the East Line service, effective September 1, 2010. The rates placed in effect on January 1, 2010, and the lower rates put into effect on September 1, 2010, remain subject to refund subject to the outcome of the evidentiary hearing. We are not in a position to predict the ultimate outcome of the rate proceeding.

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

NOTE 16: Segment Information

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

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

Table of Contents

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

The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2010.

	Refining	HEP ⁽¹⁾	Corporate and Other (In thousands)	Consolidations and Eliminations	Consolidated Total
Three Months Ended June 30, 2011					
Sales and other revenues	\$ 2,953,226	\$ 50,940	\$ 153	\$ (37,186)	\$ 2,967,133
Depreciation and amortization	\$ 23,478	\$ 7,309	\$ 1,252	\$ (207)	\$ 31,832
Income (loss) from operations	\$ 321,032	\$ 27,692	\$ (18,040)	\$ (505)	\$ 330,179
Capital expenditures	\$ 25,152	\$ 11,425	\$ 45,690	\$	\$ 82,267
Three Months Ended June 30, 2010					
Sales and other revenues	\$ 2,137,361	\$ 45,483	\$ 150	\$ (37,134)	\$ 2,145,860
Depreciation and amortization	\$ 20,599	\$ 7,187	\$ 1,333	\$ (295)	\$ 28,824
Income (loss) from operations	\$ 124,549	\$ 22,888	\$ (15,111)	\$ (162)	\$ 132,164
Capital expenditures	\$ 42,492	\$ 2,576	\$ 364	\$	\$ 45,432
Six Months Ended June 30, 2011					
Sales and other revenues	\$ 5,268,318	\$ 95,945	\$ 801	\$ (71,346)	\$ 5,293,718
Depreciation and amortization	\$ 46,461	\$ 14,544	\$ 2,549	\$ (414)	\$ 63,140
Income (loss) from operations	\$ 473,136	\$ 51,303	\$ (34,138)	\$ (1,023)	\$ 489,278
Capital expenditures	\$ 45,784	\$ 22,900	\$ 87,621	\$	\$ 156,305
Six Months Ended June 30, 2010					
Sales and other revenues	\$ 4,004,534	\$ 86,172	\$ 217	\$ (70,773)	\$ 4,020,150
Depreciation and amortization	\$ 41,325	\$ 13,992	\$ 1,854	\$ (590)	\$ 56,581
Income (loss) from operations	\$ 99,969	\$ 41,149	\$ (30,877)	\$ (821)	\$ 109,420
Capital expenditures	\$ 70,764	\$ 4,487	\$ 1,279	\$	\$ 76,530
June 30, 2011					
Cash, cash equivalents and investments in marketable securities	\$	\$ 1,402	\$ 515,945	\$	\$ 517,347
Total assets	\$ 2,614,120	\$ 678,508	\$ 901,439	\$ (28,764)	\$ 4,165,303
Long-term debt	\$	\$ 510,566	\$ 344,996	\$ (16,696)	\$ 838,866
December 31, 2010					
Cash, cash equivalents and investments in marketable securities	\$	\$ 403	\$ 230,041	\$	\$ 230,444
Total assets	\$ 2,490,193	\$ 669,820	\$ 573,531	\$ (32,069)	\$ 3,701,475
Long-term debt	\$	\$ 482,271	\$ 345,215	\$ (16,925)	\$ 810,561

(1) HEP segment revenues from external customers were \$13.8 million and \$8.4 million for the three months ended June 30, 2011 and 2010, respectively, and \$24.7 million and \$15.5 million for the six months ended June 30, 2011 and 2010, respectively.

Table of Contents

NOTE 17: Supplemental Guarantor/Non-Guarantor Financial Information

Our obligations under the HollyFrontier 9.875% Senior Notes have been jointly and severally guaranteed by the substantial majority of our existing and future restricted subsidiaries (Guarantor Restricted Subsidiaries). These guarantees are full and unconditional. HEP, in which we have a 34% ownership interest, and its subsidiaries (collectively, Non-Guarantor Non-Restricted Subsidiaries), and certain of our other subsidiaries (Non-Guarantor Restricted Subsidiaries) have not guaranteed these obligations.

The following financial information presents condensed consolidating balance sheets, statements of income, and statements of cash flows of HollyFrontier (the Parent), the Guarantor Restricted Subsidiaries, the Non-Guarantor Restricted Subsidiaries and the Non-Guarantor Non-Restricted Subsidiaries. The information has been presented as if the Parent accounted for its ownership in the Guarantor Restricted Subsidiaries, and the Guarantor Restricted Subsidiaries accounted for the ownership of the Non-Guarantor Restricted Subsidiaries and Non-Guarantor Non-Restricted Subsidiaries, using the equity method of accounting. The Guarantor Restricted Subsidiaries and the Non-Guarantor Restricted Subsidiaries are collectively the Restricted Subsidiaries. Our revaluation of HEP's assets and liabilities at March 1, 2008 (date of reconsolidation) resulted in basis adjustments to our consolidated HEP balances. Therefore, our reported amounts for the HEP segment may not agree to amounts reported in HEP's periodic public filings.

Table of Contents**Condensed Consolidating Balance Sheet**

June 30, 2011	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations (In thousands)	HollyFrontier Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 414,141	\$ (1,656)	\$ 12,802	\$	\$ 425,287	\$ 1,402	\$	\$ 426,689
Marketable securities	64,759	1,095			65,854			65,854
Accounts receivable	3,074	1,000,967	57		1,004,098	18,756	(19,327)	1,003,527
Intercompany accounts receivable (payable)	(1,844,815)	1,418,880	425,935					
Inventories		495,115			495,115	185		495,300
Prepayments and other assets	17,828	18,809			36,637	853	(3,886)	33,604
Total current assets	(1,345,013)	2,933,210	438,794		2,026,991	21,196	(23,213)	2,024,974
Properties and equipment, net	17,713	1,031,585	315,691		1,364,989	501,469	(6,695)	1,859,763
Marketable securities (long-term)	24,804				24,804			24,804
Investment in subsidiaries	2,766,499	664,480	(394,949)	(3,036,030)				
Intangibles and other assets	16,284	82,491			98,775	155,843	1,144	255,762
Total assets	\$ 1,480,287	\$ 4,711,766	\$ 359,536	\$ (3,036,030)	\$ 3,515,559	\$ 678,508	\$ (28,764)	\$ 4,165,303
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	\$ 7,278	\$ 1,447,891	\$ 7,683	\$	\$ 1,462,852	\$ 7,115	\$ (19,327)	\$ 1,450,640
Income taxes payable	23,002				23,002			23,002
Accrued liabilities	29,133	40,738	1,858		71,729	16,108	(3,886)	83,951
Total current liabilities	59,413	1,488,629	9,541		1,557,583	23,223	(23,213)	1,557,593
Long-term debt	290,083	54,913			344,996	510,566	(16,696)	838,866
Non-current liabilities	46,315	25,712			72,027	9,164		81,191
Deferred income taxes	122,565	176	773		123,514		4,951	128,465
Distributions in excess of inv in HEP		375,837			375,837		(375,837)	
Equity HollyFrontier	961,911	2,766,499	349,222	(3,115,721)	961,911	135,555	(137,003)	960,463
Equity noncontrolling interest				79,691	79,691		519,034	598,725
Total liabilities and equity	\$ 1,480,287	\$ 4,711,766	\$ 359,536	\$ (3,036,030)	\$ 3,515,559	\$ 678,508	\$ (28,764)	\$ 4,165,303

Condensed Consolidating Balance Sheet

Edgar Filing: HollyFrontier Corp - Form 10-Q

December 31, 2010	Parent	Guarantor Restricted Subsidiaries	Non- Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Before Consolidation of HEP (In thousands)	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 230,082	\$ (9,035)	\$ 7,651	\$	\$ 228,698	\$ 403	\$	\$ 229,101
Marketable securities		1,343			1,343			1,343
Accounts receivable	1,683	991,778			993,461	22,508	(22,853)	993,116
Intercompany accounts receivable (payable)	(1,401,580)	981,691	419,889					
Inventories		400,165			400,165	202		400,367
Income taxes receivable	51,034				51,034			51,034
Prepayments and other assets	10,210	20,942			31,152	573	(3,251)	28,474
Total current assets	(1,108,571)	2,386,884	427,540		1,705,853	23,686	(26,104)	1,703,435
Properties and equipment, net	17,177	1,017,877	236,648		1,271,702	492,098	(7,109)	1,756,691
Investment in subsidiaries	2,273,159	595,888	(393,011)	(2,476,036)				
Intangibles and other assets	8,569	77,600			86,169	154,036	1,144	241,349
Total assets	\$ 1,190,334	\$ 4,078,249	\$ 271,177	\$ (2,476,036)	\$ 3,063,724	\$ 669,820	\$ (32,069)	\$ 3,701,475
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	\$ 7,170	\$ 1,319,316	\$ 3,575	\$	\$ 1,330,061	\$ 10,238	\$ (22,853)	\$ 1,317,446
Accrued liabilities	25,512	28,145	797		54,454	21,206	(3,251)	72,409
Total current liabilities	32,682	1,347,461	4,372		1,384,515	31,444	(26,104)	1,389,855
Long-term debt	289,509	55,706			345,215	482,271	(16,925)	810,561
Non-current liabilities	42,655	27,521			70,176	10,809		80,985
Deferred income taxes	126,160	259	565		126,984		4,951	131,935
Distributions in excess of inv in HEP		374,143			374,143		(374,143)	
Equity HollyFrontier	699,328	2,273,159	266,240	(2,539,399)	699,328	145,296	(147,205)	697,419
Equity noncontrolling interest				63,363	63,363		527,357	590,720
Total liabilities and equity	\$ 1,190,334	\$ 4,078,249	\$ 271,177	\$ (2,476,036)	\$ 3,063,724	\$ 669,820	\$ (32,069)	\$ 3,701,475

Edgar Filing: HollyFrontier Corp - Form 10-Q

	(In thousands)							
	Segment)							
Sales and other revenues	\$ 150	\$ 2,137,361	\$	\$	\$ 2,137,511	\$ 45,483	\$ (37,134)	\$ 2,145,860
Operating costs and expenses:								
Cost of products sold		1,884,676	86		1,884,762		(36,550)	1,848,212
Operating expenses		107,463			107,463	13,495	(127)	120,831
General and administrative expenses	13,916				13,916	1,913		15,829
Depreciation and amortization	928	20,825	179		21,932	7,187	(295)	28,824
Total operating costs and expenses	14,844	2,012,964	265		2,028,073	22,595	(36,972)	2,013,696
Income (loss) from operations	(14,694)	124,397	(265)		109,438	22,888	(162)	132,164
Other income (expense):								
Equity in earnings of subsidiaries and joint venture	130,097	6,819	7,007	(136,916)	7,007	544	(7,007)	544
Interest income (expense)	(9,527)	(1,119)	12		(10,634)	(10,109)	355	(20,388)
	120,570	5,700	7,019	(136,916)	(3,627)	(9,565)	(6,652)	(19,844)
Income before income taxes	105,876	130,097	6,754	(136,916)	105,811	13,323	(6,814)	112,320
Income tax provision	39,608				39,608	46		39,654
Net income	66,268	130,097	6,754	(136,916)	66,203	13,277	(6,814)	72,666
Less net income attributable to noncontrolling interest				(65)	(65)		6,569	6,504
Net income attributable to HollyFrontier stockholders	\$ 66,268	\$ 130,097	\$ 6,754	\$ (136,851)	\$ 66,268	\$ 13,277	\$ (13,383)	\$ 66,162

Table of Contents**Condensed Consolidating Statement of Income**

Six Months Ended		Guarantor	Non-		HollyFrontier	Non-Guarantor		
June 30, 2011	Parent	Restricted	Guarantor	Eliminations	Frontier	Non-Restricted	Eliminations	Consolidated
		Subsidiaries	Restricted		Before	Subsidiaries		
			Subsidiaries		Consolidation	(HEP		
					of HEP	Segment)		
					(In thousands)			
Sales and other revenues	\$ 801	\$ 5,268,318	\$	\$	\$ 5,269,119	\$ 95,945	\$ (71,346)	\$ 5,293,718
Operating costs and expenses:								
Cost of products sold		4,501,361			4,501,361		(69,649)	4,431,712
Operating expenses		246,677	509		247,186	27,162	(260)	274,088
General and administrative expenses	32,329	235			32,564	2,936		35,500
Depreciation and amortization	1,847	46,805	358		49,010	14,544	(414)	63,140
Total operating costs and expenses	34,176	4,795,078	867		4,830,121	44,642	(70,323)	4,804,440
Income (loss) from operations	(33,375)	473,240	(867)		438,998	51,303	(1,023)	489,278
Other income (expense):								
Equity in earnings of subsidiaries and joint venture	488,453	16,831	17,500	(505,284)	17,500	1,207	(17,500)	1,207
Interest income (expense)	(11,872)	(1,618)	26		(13,464)	(18,398)	1,207	(30,655)
Merger transaction costs	(6,014)				(6,014)			(6,014)
	470,567	15,213	17,526	(505,284)	(1,978)	(17,191)	(16,293)	(35,462)
Income before income taxes	437,192	488,453	16,659	(505,284)	437,020	34,112	(17,316)	453,816
Income tax provision	160,726				160,726	246		160,972
Net income	276,466	488,453	16,659	(505,284)	276,294	33,866	(17,316)	292,844
Less net income attributable to noncontrolling interest				(172)	(172)		16,087	15,915
Net income attributable to HollyFrontier stockholders	\$ 276,466	\$ 488,453	\$ 16,659	\$ (505,112)	\$ 276,466	\$ 33,866	\$ (33,403)	\$ 276,929

Condensed Consolidating Statement of Income

Six Months Ended	Parent	Guarantor	Non-	Eliminations	HollyFrontier	Non-Guarantor	Eliminations	Consolidated
		Restricted	Guarantor		Before	Non-Restricted		
					Consolidation			

Edgar Filing: HollyFrontier Corp - Form 10-Q

June 30, 2010

Subsidiaries Restricted
Subsidiaries of HEP Subsidiaries
(HEP
Segment)

(In thousands)

Sales and other revenues	\$ 217	\$ 4,004,534	\$	\$	\$ 4,004,751	\$ 86,172	\$ (70,773)	\$ 4,020,150
Operating costs and expenses:								
Cost of products sold		3,641,183	12		3,641,195		(69,119)	3,572,076
Operating expenses		222,063			222,063	26,555	(243)	248,375
General and administrative expenses	28,801	421			29,222	4,476		33,698
Depreciation and amortization	1,871	41,779	(471)		43,179	13,992	(590)	56,581
Total operating costs and expenses	30,672	3,905,446	(459)		3,935,659	45,023	(69,952)	3,910,730
Income (loss) from operations	(30,455)	99,088	459		69,092	41,149	(821)	109,420
Other income (expense):								
Equity in earnings of subsidiaries and joint venture	109,989	13,299	12,936	(123,288)	12,936	1,025	(12,936)	1,025
Interest income (expense)	(18,670)	(2,398)	20		(21,048)	(18,213)	1,210	(38,051)
	91,319	10,901	12,956	(123,288)	(8,112)	(17,188)	(11,726)	(37,026)
Income before income taxes	60,864	109,989	13,415	(123,288)	60,980	23,961	(12,547)	72,394
Income tax provision	22,842				22,842	140		22,982
Net income	38,022	109,989	13,415	(123,288)	38,138	23,821	(12,547)	49,412
Less net income attributable to noncontrolling interest				116	116		11,228	11,344
Net income attributable to HollyFrontier stockholders	\$ 38,022	\$ 109,989	\$ 13,415	\$ (123,404)	\$ 38,022	\$ 23,821	\$ (23,775)	\$ 38,068

Table of Contents**Condensed Consolidating Statement of Cash Flows**

Six Months Ended		Guarantor	Non-	HollyFrontier	Non-Guarantor		
June 30, 2011	Parent	Restricted	Guarantor	Before	Non-Restricted	Eliminations	Consolidated
		Subsidiaries	Restricted	Consolidation	Subsidiaries		
			Subsidiaries	of HEP	(HEP		
				(In thousands)	Segment)		
Cash flows from operating activities	\$ 304,061	\$ 122,324	\$ 5,051	\$ 431,436	\$ 46,289	\$ (19,729)	\$ 457,996
Cash flows from investing activities							
Additions to properties, plants and equipment	(2,623)	(51,382)	(79,400)	(133,405)			(133,405)
Additions to properties, plants and equipment HEP					(22,900)		(22,900)
Investment in Sabine Biofuels	(9,125)			(9,125)			(9,125)
Purchases of marketable securities	(157,782)			(157,782)			(157,782)
Sales and maturities of marketable securities	68,150			68,150			68,150
	(101,380)	(51,382)	(79,400)	(232,162)	(22,900)		(255,062)
Cash flows from financing activities							
Net borrowings under credit agreements HEP					27,000		27,000
Repayments under financing obligation		(563)		(563)			(563)
Purchase of treasury stock	(2,996)			(2,996)			(2,996)
Contribution from joint venture partner		(63,000)	79,500	16,500			16,500
Dividends	(15,984)			(15,984)			(15,984)
Distributions to noncontrolling interest					(44,862)	19,729	(25,133)
Excess tax benefit from equity based compensation	498			498			498
Purchase of units for HEP restricted grants					(1,379)		(1,379)
Deferred financing costs	(140)			(140)	(3,149)		(3,289)
	(18,622)	(63,563)	79,500	(2,685)	(22,390)	19,729	(5,346)
Cash and cash equivalents							
Increase (decrease) for the period	184,059	7,379	5,151	196,589	999		197,588
Beginning of period	230,082	(9,035)	7,651	228,698	403		229,101
End of period	\$ 414,141	\$ (1,656)	\$ 12,802	\$ 425,287	\$ 1,402	\$	\$ 426,689

Condensed Consolidating Statement of Cash Flows

Six Months Ended		Guarantor	Non-	HollyFrontier	Non-Guarantor		
June 30, 2010	Parent	Restricted	Guarantor	Before	Non-Restricted	Eliminations	Consolidated
		Subsidiaries	Restricted	Consolidation	Subsidiaries		
			Subsidiaries	of HEP	(HEP		
					Segment)		

Edgar Filing: HollyFrontier Corp - Form 10-Q

(In thousands)

Cash flows from operating activities	\$ 24,464	\$ (15,103)	\$ 1,379	\$ 10,740	\$ 45,186	\$ (17,580)	\$ 38,346
Cash flows from investing activities							
Additions to properties, plants and equipment	(1,279)	(54,880)	(15,884)	(72,043)			(72,043)
Additions to properties, plants and equipment HEP					(43,527)	39,040	(4,487)
Proceeds from sale of assets		39,040		39,040		(39,040)	
	(1,279)	(15,840)	(15,884)	(33,003)	(43,527)		(76,530)
Cash flows from financing activities							
Net repayments under credit agreements HEP					(51,000)		(51,000)
Proceeds from issuance of senior notes HEP					147,540		147,540
Repayments under financing obligation		(616)		(616)		201	(415)
Purchase of treasury stock	(1,308)			(1,308)			(1,308)
Contribution from joint venture partner		(15,000)	20,000	5,000			5,000
Dividends	(15,901)			(15,901)			(15,901)
Purchase price in excess of transferred basis in assets		53,960		53,960	(53,960)		
Distributions to noncontrolling interest					(41,312)	17,379	(23,933)
Excess tax expense from equity based compensation	(1,313)			(1,313)			(1,313)
Deferred financing costs	(1,177)	(1,125)		(2,302)	(353)		(2,655)
Purchase of units for HEP restricted grants					(2,276)		(2,276)
Issuance of common stock upon exercise of options	61			61			61
	(19,638)	37,219	20,000	37,581	(1,361)	17,580	53,800
Cash and cash equivalents							
Increase (decrease) for the period	3,547	6,276	5,495	15,318	298		15,616
Beginning of period	127,560	(12,477)	7,005	122,088	2,508		124,596
End of period	\$ 131,107	\$ (6,201)	\$ 12,500	\$ 137,406	\$ 2,806	\$	\$ 140,212

NOTE 18: Subsequent Event

On August 3, 2011 we announced that our Board of Directors approved a two-for-one stock split payable in the form of a stock dividend of one share of common stock for each issued and outstanding share of HollyFrontier common stock and a special cash dividend of \$1.00 per share. The stock dividend is payable on August 31, 2011 to all holders of record on August 24, 2011, and the cash dividend is payable on August 22, 2011 to all holders of record on August 15, 2011. Upon completion of the stock split, we will have approximately 210 million shares of common stock outstanding.

Table of Contents

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

This Item 2 contains forward-looking statements. See Forward-Looking Statements at the beginning of Part I of this Quarterly Report on Form 10-Q. Holly Corporation (Holly) changed its name to HollyFrontier Corporation (HollyFrontier or HollyFrontier Corporation) in connection with the consummation of its merger of equals with Frontier Oil Corporation (Frontier), which became effective on July 1, 2011 (see description below). All previous references to Holly within this document have been replaced with HollyFrontier. References herein to HollyFrontier Corporation with respect to time periods through and including June 30, 2011 include Holly and its consolidated subsidiaries and do not include Frontier and its consolidated subsidiaries since the merger had not been consummated as of June 30, 2011, while references herein to HollyFrontier with respect to time periods from and after July 1, 2011 include Frontier and its consolidated subsidiaries. Unless otherwise specified, the financial information included herein are as of and for the period ended June 30, 2011 and, thus, do not include financial information for Frontier. In this document, the words we, our, ours and us refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person. The words we, our, ours and us generally include Holly Energy Partners, L.P. (HEP) and its subsidiaries as consolidated subsidiaries of HollyFrontier with certain exceptions where there are transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

OVERVIEW

We are principally an independent petroleum refiner that produces high value light products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. Navajo Refining Company, L.L.C., one of our wholly-owned subsidiaries, owns a petroleum refinery in Artesia, New Mexico, which operates in conjunction with crude, vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the Navajo Refinery). The Navajo Refinery can process sour (high sulfur) crude oils and serves markets in the southwestern United States and northern Mexico. Our refinery located just north of Salt Lake City, Utah (the Woods Cross Refinery) is operated by Holly Refining & Marketing Company Woods Cross LLC, one of our wholly-owned subsidiaries. This facility is a high conversion refinery that primarily processes regional sweet (lower sulfur) and sour Canadian crude oils. Our refinery located in Tulsa, Oklahoma (the Tulsa Refinery) is comprised of two facilities, the Tulsa Refinery west and east facilities.

At June 30, 2011, we owned a 34% interest in HEP, a consolidated variable interest entity (VIE), which includes our 2% general partner interest. HEP has logistic assets including petroleum product and crude oil pipelines located in Texas, New Mexico, Oklahoma and Utah; ten refined product terminals; a jet fuel terminal; loading rack facilities at each of our three refineries, a refined products tank farm facility and on-site crude oil tankage at our Navajo, Woods Cross and Tulsa Refineries. Additionally, HEP owns a 25% interest in SLC Pipeline LLC (SLC Pipeline), a new 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

Our principal source of revenue is from the sale of high value light products such as gasoline, diesel fuel, jet fuel and asphalt products in markets in the Southwest, Rocky Mountain and Mid-Continent regions of the United States and northern Mexico. We also produce specialty lubricant products that are marketed throughout North America and are distributed in Central and South America. For the six months ended June 30, 2011, sales and other revenues were \$5,293.7 million and net income attributable to HollyFrontier stockholders was \$276.9 million. For the six months ended June 30, 2010, sales and other revenues were \$4,020.2 million and the net income attributable to HollyFrontier stockholders was \$38.1 million. Our principal expenses are costs of products sold and operating expenses. Our total operating costs and expenses for the six months ended June 30, 2011 were \$4,804.4 million compared to \$3,910.7 million for the six months ended June 30, 2010.

On February 21, 2011, we entered into a merger agreement providing for a merger of equals business combination between us and Frontier. On July 1, 2011, North Acquisition, Inc. a direct wholly-owned subsidiary of Holly merged with and into Frontier, with Frontier surviving as a wholly-owned subsidiary of Holly. Concurrent with the merger, we changed our name to HollyFrontier Corporation and changed the trading symbol

Table of Contents

for our common stock traded on the New York Stock Exchange to HFC. Subsequent to the merger and following approval by the post-closing board of directors of HollyFrontier, Frontier merged with and into HollyFrontier, with HollyFrontier continuing as the surviving corporation.

In accordance with the merger agreement, we issued approximately 51.4 million shares of HollyFrontier common stock in exchange for outstanding shares of Frontier common stock to former Frontier stockholders. Each outstanding share of Frontier common stock was converted into 0.4811 shares of HollyFrontier common stock with any fractional shares paid in cash. Based on the July 1, 2011 market closing price of \$71.86, the aggregate equity consideration paid in connection with the merger was approximately \$3.7 billion.

Beginning July 1, 2011, HollyFrontier's consolidated financial and operating results will reflect the operations of the merged Frontier businesses. This includes a 135,000 barrels per stream day (bpsd) refinery located in El Dorado, Kansas (the El Dorado Refinery) and a 52,000 bpsd refinery located in Cheyenne, Wyoming (the Cheyenne Refinery) that serve markets in the Rocky Mountain and Plains States regions of the United States.

Table of Contents**RESULTS OF OPERATIONS****Financial Data (Unaudited)**

	Three Months Ended		Change from 2010	
	2011	June 30, 2010	Change	Percent
	(In thousands, except per share data)			
Sales and other revenues	\$ 2,967,133	\$ 2,145,860	\$ 821,273	38.3%
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	2,447,095	1,848,212	598,883	32.4
Operating expenses (exclusive of depreciation and amortization)	139,345	120,831	18,514	15.3
General and administrative expenses (exclusive of depreciation and amortization)	18,682	15,829	2,853	18.0
Depreciation and amortization	31,832	28,824	3,008	10.4
Total operating costs and expenses	2,636,954	2,013,696	623,258	31.0
Income from operations	330,179	132,164	198,015	149.8
Other income (expense):				
Equity in earnings of SLC Pipeline	467	544	(77)	(14.2)
Interest income	657	635	22	3.5
Interest expense	(15,193)	(21,023)	5,830	(27.7)
Merger transaction costs	(2,316)		(2,316)	
	(16,385)	(19,844)	3,459	(17.4)
Income before income taxes	313,794	112,320	201,474	179.4
Income tax provision	111,961	39,654	72,307	182.3
Net income	201,833	72,666	129,167	177.8
Less net income attributable to noncontrolling interest	9,598	6,504	3,094	47.6
Net income attributable to HollyFrontier stockholders	\$ 192,235	\$ 66,162	\$ 126,073	190.6%
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$ 3.60	\$ 1.24	\$ 2.36	190.3%
Diluted	\$ 3.58	\$ 1.24	\$ 2.34	188.7%
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$	%
Average number of common shares outstanding:				
Basic	53,365	53,206	159	0.3%
Diluted	53,670	53,408	262	0.5%

Table of Contents

	Six Months Ended		Change from 2010	
	2011	June 30, 2010	Change	Percent
	(In thousands, except per share data)			
Sales and other revenues	\$ 5,293,718	\$ 4,020,150	\$ 1,273,568	31.7%
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	4,431,712	3,572,076	859,636	24.1
Operating expenses (exclusive of depreciation and amortization)	274,088	248,375	25,713	10.4
General and administrative expenses (exclusive of depreciation and amortization)	35,500	33,698	1,802	5.3
Depreciation and amortization	63,140	56,581	6,559	11.6
Total operating costs and expenses	4,804,440	3,910,730	893,710	22.9
Income from operations	489,278	109,420	379,858	347.2
Other income (expense):				
Equity in earnings of SLC Pipeline	1,207	1,025	182	17.8
Interest income	742	694	48	6.9
Interest expense	(31,397)	(38,745)	7,348	(19.0)
Merger transaction costs	(6,014)		(6,014)	
	(35,462)	(37,026)	1,564	(4.2)
Income before income taxes	453,816	72,394	381,422	526.9
Income tax provision	160,972	22,982	137,990	600.4
Net income	292,844	49,412	243,432	492.7
Less net income attributable to noncontrolling interest	15,915	11,344	4,571	40.3
Net income attributable to HollyFrontier stockholders	\$ 276,929	\$ 38,068	\$ 238,861	627.5%
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$ 5.19	\$ 0.72	\$ 4.47	620.8%
Diluted	\$ 5.16	\$ 0.71	\$ 4.45	626.8%
Cash dividends declared per common share	\$ 0.30	\$ 0.30	\$	%
Average number of common shares outstanding:				
Basic	53,336	53,152	184	0.3%
Diluted	53,643	53,375	268	0.5%
Balance Sheet Data (Unaudited)				

	June 30, 2011	December 31, 2010
	(In thousands)	
Cash, cash equivalents and investments in marketable securities	\$ 517,347	\$ 230,444

Edgar Filing: HollyFrontier Corp - Form 10-Q

Working capital	\$ 467,381	\$ 313,580
Total assets	\$ 4,165,303	\$ 3,701,475
Long-term debt	\$ 838,866	\$ 810,561
Total equity	\$ 1,559,188	\$ 1,288,139

- 33 -

Table of Contents**Other Financial Data (Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net cash provided by operating activities	\$ 327,454	\$ 128,370	\$ 457,996	\$ 38,346
Net cash used for investing activities	\$ (114,012)	\$ (45,432)	\$ (255,062)	\$ (76,530)
Net cash provided by (used for) financing activities	\$ (10,867)	\$ (36,015)	\$ (5,346)	\$ 53,800
Capital expenditures	\$ 82,267	\$ 45,432	\$ 156,305	\$ 76,530
EBITDA ⁽¹⁾	\$ 350,564	\$ 155,028	\$ 531,696	\$ 155,682

- (1) Earnings before interest, taxes, depreciation and amortization, which we refer to as (EBITDA), is calculated as net income plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for financial covenants. EBITDA presented above is reconciled to net income under Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part I of this Form 10-Q.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Sales and other revenues				
Refining ⁽¹⁾	\$ 2,953,226	\$ 2,137,361	\$ 5,268,318	\$ 4,004,534
HEP ⁽²⁾	50,940	45,483	95,945	86,172
Corporate and Other	153	150	801	217
Eliminations	(37,186)	(37,134)	(71,346)	(70,773)
Consolidated	\$ 2,967,133	\$ 2,145,860	\$ 5,293,718	\$ 4,020,150
Operating Income (loss)				
Refining ⁽¹⁾	\$ 321,032	\$ 124,549	\$ 473,136	\$ 99,969
HEP ⁽²⁾	27,692	22,888	51,303	41,149
Corporate and Other	(18,040)	(15,111)	(34,138)	(30,877)
Eliminations	(505)	(162)	(1,023)	(821)
Consolidated	\$ 330,179	\$ 132,164	\$ 489,278	\$ 109,420

(1)

Edgar Filing: HollyFrontier Corp - Form 10-Q

The Refining segment includes the operations of our Navajo, Woods Cross and Tulsa Refineries and NK Asphalt Partners (NK Asphalt) and involves the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. The petroleum products are primarily marketed in the Southwest, Rocky Mountain and Mid-Continent regions of the United States and northern Mexico. Additionally, specialty lubricant products produced at our Tulsa Refinery are marketed throughout North America and are distributed in Central and South America. NK Asphalt operates various asphalt terminals in Arizona, New Mexico and Texas.

- 34 -

Table of Contents

- (2) The HEP segment involves all of the operations of HEP which owns and operates a system of petroleum product and crude gathering pipelines and refinery tankage in Texas, New Mexico, Oklahoma and Utah, and distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho, Oklahoma and Washington. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines and by charging fees for terminalling petroleum products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Additionally, HEP owns a 25% interest in the SLC Pipeline that services refineries in the Salt Lake City, Utah area. Revenues from the HEP segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations.

Refining Operating Data (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Navajo Refinery				
Crude charge (BPD) ⁽¹⁾	86,080	82,370	78,070	80,650
Refinery throughput (BPD) ⁽²⁾	94,190	92,440	86,600	91,470
Refinery production (BPD) ⁽³⁾	93,620	91,750	85,220	89,650
Sales of produced refined products (BPD)	94,340	93,040	87,130	90,000
Sales of refined products (BPD) ⁽⁴⁾	98,120	96,280	92,440	93,220
Refinery utilization ⁽⁵⁾	86.1%	82.4%	78.1%	80.7%
Average per produced barrel ⁽⁶⁾				
Net sales	\$ 126.36	\$ 91.21	\$ 119.35	\$ 89.70
Cost of products ⁽⁷⁾	104.24	82.08	100.30	82.50
Refinery gross margin	22.12	9.13	19.05	7.20
Refinery operating expenses ⁽⁸⁾	5.17	4.61	5.71	4.88
Net operating margin	\$ 16.95	\$ 4.52	\$ 13.34	\$ 2.32
Refinery operating expenses per throughput barrel	\$ 5.18	\$ 4.64	\$ 5.74	\$ 4.80
Feedstocks:				
Sour crude oil	71%	85%	72%	86%
Sweet crude oil	4%	4%	4%	4%
Heavy sour crude oil	16%	%	14%	%
Other feedstocks and blends	9%	11%	10%	10%
Total	100%	100%	100%	100%
Sales of produced refined products:				
Gasolines	52%	57%	52%	57%
Diesel fuels	32%	31%	33%	31%
Jet fuels	1%	5%	1%	4%
Fuel oil	7%	3%	6%	4%
Asphalt	4%	2%	4%	2%
LPG and other	4%	2%	4%	2%

Edgar Filing: HollyFrontier Corp - Form 10-Q

Total

100%

100%

100%

100%

- 35 -

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Woods Cross Refinery				
Crude charge (BPD) ⁽¹⁾	26,840	27,450	26,310	26,570
Refinery throughput (BPD) ⁽²⁾	28,740	28,940	28,320	28,030
Refinery production (BPD) ⁽³⁾	28,320	28,850	27,480	27,700
Sales of produced refined products (BPD)	27,600	29,070	27,130	28,620
Sales of refined products (BPD) ⁽⁴⁾	27,600	29,140	27,170	28,750
Refinery utilization ⁽⁵⁾	86.6%	88.5%	84.9%	85.7%
Average per produced barrel ⁽⁶⁾				
Net sales	\$ 128.02	\$ 96.62	\$ 118.62	\$ 93.15
Cost of products ⁽⁷⁾	99.79	74.26	94.95	74.48
Refinery gross margin	28.23	22.36	23.67	18.67
Refinery operating expenses ⁽⁸⁾	6.16	5.30	6.29	5.74
Net operating margin	\$ 22.07	\$ 17.06	\$ 17.38	\$ 12.93
Refinery operating expenses per throughput barrel	\$ 5.92	\$ 5.32	\$ 6.03	\$ 5.86
Feedstocks:				
Sweet crude oil	61%	60%	59%	60%
Heavy sour crude oil	5%	5%	5%	6%
Black wax crude oil	28%	29%	29%	29%
Other feedstocks and blends	6%	6%	7%	5%
Total	100%	100%	100%	100%
Sales of produced refined products:				
Gasolines	61%	62%	61%	63%
Diesel fuels	31%	31%	30%	29%
Jet fuels	1%	1%	1%	1%
Fuel oil	3%	1%	3%	1%
Asphalt	2%	3%	3%	3%
LPG and other	2%	2%	2%	3%
Total	100%	100%	100%	100%
Tulsa Refinery				
Crude charge (BPD) ⁽¹⁾	110,100	118,480	107,860	111,080
Refinery throughput (BPD) ⁽²⁾	111,850	119,800	109,290	112,350
Refinery production (BPD) ⁽³⁾	110,110	112,860	107,050	107,900
Sales of produced refined products (BPD)	112,710	111,880	106,400	105,360
Sales of refined products (BPD) ⁽⁴⁾	114,300	111,880	107,390	106,280
Refinery utilization ⁽⁵⁾	88.1%	94.8%	86.3%	88.9%
Average per produced barrel ⁽⁶⁾				
Net sales	\$ 129.11	\$ 90.93	\$ 122.65	\$ 88.74
Cost of products ⁽⁷⁾	109.94	81.32	105.53	82.05

Edgar Filing: HollyFrontier Corp - Form 10-Q

Refinery gross margin	19.17	9.61	17.12	6.69
Refinery operating expenses ⁽⁸⁾	5.56	4.70	5.76	5.26
Net operating margin	\$ 13.61	\$ 4.91	\$ 11.36	\$ 1.43
Refinery operating expenses per throughput barrel	\$ 5.60	\$ 4.39	\$ 5.61	\$ 4.93
Feedstocks:				
Sweet crude oil	93%	89%	95%	94%
Heavy sour crude oil	5%	3%	4%	1%
Sour crude oil	%	8%	%	4%
Other feedstocks and blends	2%	%	1%	1%
Total	100%	100%	100%	100%

- 36 -

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Sales of produced refined products:				
Gasolines	38%	37%	37%	39%
Diesel fuels	30%	32%	30%	31%
Jet fuels	8%	9%	8%	9%
Lubricants	10%	10%	11%	10%
Gas oil / intermediates	6%	3%	6%	3%
Asphalt	5%	4%	5%	4%
LPG and other	3%	5%	3%	4%
Total	100%	100%	100%	100%

Consolidated

Crude charge (BPD) ⁽¹⁾	223,020	228,300	212,240	218,300
Refinery throughput (BPD) ⁽²⁾	234,780	241,180	224,210	231,850
Refinery production (BPD) ⁽³⁾	232,050	233,460	219,750	225,250
Sales of produced refined products (BPD)	234,650	233,990	220,660	223,980
Sales of refined products (BPD) ⁽⁴⁾	240,020	237,300	227,000	228,250
Refinery utilization ⁽⁵⁾	87.1%	89.2%	82.9%	85.3%
Average per produced barrel ⁽⁶⁾				
Net sales	\$ 127.87	\$ 91.75	\$ 120.85	\$ 89.69
Cost of products ⁽⁷⁾	106.45	80.74	102.16	81.26
Refinery gross margin	21.42	11.01	18.69	8.43
Refinery operating expenses ⁽⁸⁾	5.48	4.74	5.80	5.17
Net operating margin	\$ 15.94	\$ 6.27	\$ 12.89	\$ 3.26
Refinery operating expenses per throughput barrel	\$ 5.47	\$ 4.60	\$ 5.71	\$ 4.99
Feedstocks:				
Sour crude oil	29%	37%	28%	36%
Sweet crude oil	54%	53%	55%	55%
Heavy sour crude oil	9%	2%	8%	1%
Black wax crude oil	3%	3%	4%	3%
Other feedstocks and blends	5%	5%	5%	5%
Total	100%	100%	100%	100%

Sales of produced refined products:				
Gasolines	46%	48%	46%	49%
Diesel fuels	31%	32%	32%	31%
Jet fuels	4%	6%	4%	6%
Fuel oil	3%	1%	3%	2%
Asphalt	5%	3%	4%	3%
Lubricants	5%	5%	5%	5%
Gas oil / intermediates	3%	2%	3%	1%
LPG and other	3%	3%	3%	3%
Total	100%	100%	100%	100%

Edgar Filing: HollyFrontier Corp - Form 10-Q

- (1) Crude charge represents the barrels per day of crude oil processed at our refineries.
- (2) Refinery throughput represents the barrels per day of crude and other refinery feedstocks input to the crude units and other conversion units at our refineries.
- (3) Refinery production represents the barrels per day of refined products yielded from processing crude and other refinery feedstocks through the crude units and other conversion units at our refineries.
- (4) Includes refined products purchased for resale.
- (5) Represents crude charge divided by total crude capacity (BPSD). Our consolidated crude capacity is 256,000 BPSD.
- (6) Represents average per barrel amount for produced refined products sold, which is a non-GAAP measure. Reconciliations to amounts reported under GAAP are provided under Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part I of this Form 10-Q.
- (7) Transportation costs billed from HEP are included in cost of products.
- (8) Represents operating expenses of our refineries, exclusive of depreciation and amortization.

- 37 -

Table of Contents

Results of Operations - Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Summary

Net income attributable to HollyFrontier stockholders for the three months ended June 30, 2011 was \$192.2 million (\$3.60 per basic and \$3.58 per diluted share), a \$126 million increase compared to \$66.2 million (\$1.24 per basic and diluted share) for the three months ended June 30, 2010. Net income increased due principally to significantly higher refinery gross margins during the three months ended June 30, 2011. Overall refinery gross margins for the three months ended June 30, 2011 increased to \$21.42 per produced barrel compared to \$11.01 for the three months ended June 30, 2010.

Sales and Other Revenues

Sales and other revenues increased 38% from \$2,145.9 million for the three months ended June 30, 2010 to \$2,967.1 million for the three months ended June 30, 2011, due principally to the effects of increased sales prices of produced refined products sold. The average sales price we received per produced barrel sold increased 39% from \$91.75 for the three months ended June 30, 2010 to \$127.87 for the three months ended June 30, 2011. Sales and other revenues for the three months ended June 30, 2011 and 2010, include \$13.8 million and \$8.4 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

Additionally included in revenues for the three months ended June 30, 2010 was a final settlement received from SFPP, L.P. in June 2010 of \$8.6 million that relates to tariff refunds for shipments of refined products for the period of January 1992 through May 2006.

Cost of Products Sold

Cost of products sold increased 32% from \$1,848.2 million for the three months ended June 30, 2010 to \$2,447.1 million for the three months ended June 30, 2011, due principally to higher crude oil costs. The average price we paid per barrel for crude oil and feedstocks and the transportation costs of moving the finished products to the market place increased 32% from \$80.74 for the three months ended June 30, 2010 to \$106.45 for the three months ended June 30, 2011.

Gross Refinery Margins

Gross refinery margin per produced barrel increased 95% from \$11.01 for the three months ended June 30, 2010 to \$21.42 for the three months ended June 30, 2011 due to the effects of an increase in the average sales price we received per barrel of produced refined products sold, partially offset by an increase in the average per barrel price we paid for crude oil and feedstocks. Our processing of lower priced West Texas Intermediate related crude oil combined with strong diesel and high gasoline margins at all of our refineries helped fuel this margin improvement. Gross refinery margin does not include the effects of depreciation and amortization. See Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part 1 of this Form 10-Q for a reconciliation to the income statement of prices of refined products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, increased 15% from \$120.8 million for the three months ended June 30, 2010 to \$139.3 million for the three months ended June 30, 2011, due principally to increased payroll and maintenance costs.

General and Administrative Expenses

General and administrative expenses increased 18% from \$15.8 million for the three months ended June 30, 2010 to \$18.7 million for the three months ended June 30, 2011, due principally to higher payroll and equity based compensation costs.

Table of Contents

Depreciation and Amortization Expenses

Depreciation and amortization increased 10% from \$28.8 million for the three months ended June 30, 2010 to \$31.8 million for the three months ended June 30, 2011. The increase was due principally to depreciation and amortization attributable to capitalized improvement projects.

Interest Expense

Interest expense was \$15.2 million for the three months ended June 30, 2011 compared to \$21 million for the three months ended June 30, 2010. The decrease was due principally to interest capitalized on the UNEV Pipeline project. For the three months ended June 30, 2011 and 2010, interest expense included \$9.3 million and \$10.1 million, respectively, in interest costs attributable to HEP operations.

Merger Transaction Costs

For the three months ended June 30, 2011, we recognized merger transaction costs of \$2.3 million related to our merger with Frontier effective July 1, 2011. These costs relate to legal, advisory and other professional fees that are directly attributable to the merger.

Income Taxes

For the three months ended June 30, 2011, we recorded income tax expense of \$112 million compared to \$39.7 million for the three months ended June 30, 2010. This increase was due principally to significantly higher pre-tax earnings during the three months ended June 30, 2011 compared to the same period of 2010. Our effective tax rates, before consideration of earnings attributable to the noncontrolling interest, were 35.7% and 35.3% for the three months ended June 30, 2011 and 2010, respectively.

Results of Operations - Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Summary

Net income attributable to HollyFrontier stockholders for the six months ended June 30, 2011 was \$276.9 million (\$5.19 per basic and \$5.16 per diluted share), a \$238.8 million increase compared to \$38.1 million (\$0.72 per basic and \$0.71 per diluted share) for the six months ended June 30, 2010. Net income increased due principally to significantly higher refinery gross margins during the six months ended June 30, 2011. Overall refinery gross margins for the six months ended June 30, 2011 increased to \$18.69 per produced barrel compared to \$8.43 for the six months ended June 30, 2010.

Overall production levels for the six months ended June 30, 2011 decreased slightly over the same period of 2010 due principally to the effects of production downtime at the Navajo Refinery during the current year first quarter. For the six months ended June 30, 2011, overall production levels averaged 219,750 barrels per day (BPD) compared to 225,250 BPD for the same period last year.

Sales and Other Revenues

Sales and other revenues increased 32% from \$4,020.2 million for the six months ended June 30, 2010 to \$5,293.7 million for the six months ended June 30, 2011, due principally to the effects of increased sales prices of produced refined products sold that was partially offset by a slight decrease in year-over-year volumes of produced refined products sold. The average sales price we received per produced barrel sold increased 35% from \$89.69 for the six months ended June 30, 2010 to \$120.85 for the six months ended June 30, 2011. Sales and other revenues for the six months ended June 30, 2011 and 2010, include \$24.7 million and \$15.5 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

Cost of Products Sold

Cost of products sold increased 24% from \$3,572.1 million for the six months ended June 30, 2010 to \$4,431.7 million for the six months ended June 30, 2011, due principally to higher crude oil costs, partially offset by a slight decrease in volumes of produced refined products sold. The average price we paid per barrel for crude oil and feedstocks and the transportation costs of moving the finished products to the market place increased 26% from \$81.26 for the six months ended June 30, 2010 to \$102.16 for the six months ended June 30, 2011.

Table of Contents

Gross Refinery Margins

Gross refinery margin per produced barrel increased 122% from \$8.43 for the six months ended June 30, 2010 to \$18.69 for the six months ended June 30, 2011 due to the effects of an increase in the average sales price we received per barrel of produced refined products sold, partially offset by an increase in the average per barrel price we paid for crude oil and feedstocks. Gross refinery margin does not include the effects of depreciation and amortization. See Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part 1 of this Form 10-Q for a reconciliation to the income statement of prices of refined products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, increased 10% from \$248.4 million for the six months ended June 30, 2010 to \$274.1 million for the six months ended June 30, 2011, due principally to increased payroll and maintenance costs during the current year.

General and Administrative Expenses

General and administrative expenses increased 5% from \$33.7 million for the six months ended June 30, 2010 to \$35.5 million for the six months ended June 30, 2011, due principally to higher compensation costs and professional fees.

Depreciation and Amortization Expenses

Depreciation and amortization increased 12% from \$56.6 million for the six months ended June 30, 2010 to \$63.1 million for the six months ended June 30, 2011. The increase was due principally to depreciation and amortization attributable to capitalized improvement projects.

Interest Expense

Interest expense was \$31.4 million for the six months ended June 30, 2011 compared to \$38.7 million for the six months ended June 30, 2010. The decrease was due principally to interest capitalized on the UNEV Pipeline project. For the six months ended June 30, 2011 and 2010, interest expense included \$18.4 million and \$18.2 million, respectively, in interest costs attributable to HEP operations.

Merger Transaction Costs

For the six months ended June 30, 2011, we recognized merger transaction costs of \$6 million that relate to legal, advisory and other professional fees attributable to our merger with Frontier.

Income Taxes

For the six months ended June 30, 2011 we recorded income tax expense of \$161 million compared to \$23 million for the six months ended June 30, 2010. This increase was due principally to significantly higher pre-tax earnings during the six months ended June 30, 2011 compared to the same period of 2010. Our effective tax rates, before consideration of earnings attributable to the noncontrolling interest, were 35.5% and 31.7% for the six months ended June 30, 2011 and 2010, respectively.

LIQUIDITY AND CAPITAL RESOURCES

HollyFrontier Credit Agreement

On July 1, 2011, we entered into a \$1 billion senior secured credit agreement (the *HollyFrontier Credit Agreement*) with Union Bank, N.A. as administrative agent and BNP Paribas as syndication agent, and certain lenders from time to time thereto, and terminated our previous credit agreement discussed below. The *HollyFrontier Credit Agreement* matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes.

At June 30, 2011, we had a \$400 million senior secured credit agreement expiring in March 2013 with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. We were in compliance with all covenants at June 30, 2011. At June 30, 2011, we had no outstanding borrowings and outstanding letters of credit totaling \$76.8 million. At that level of usage, the unused commitment was \$323.2 million.

Table of Contents

If any particular lender could not honor its commitment under the HollyFrontier Credit Agreement, we believe the unused capacity that would be available from the remaining lenders would be sufficient to meet our borrowing needs. Additionally, we have reviewed publicly available information on our lenders in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the HollyFrontier Credit Agreement. We have not experienced, nor do we expect to experience, any difficulty in the lenders' ability to honor their respective commitments, and if it were to become necessary, we believe there would be alternative lenders or options available.

HEP Credit Agreement

HEP has a \$275 million senior secured revolving Credit Agreement (the "HEP Credit Agreement") that is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. In February 2011, HEP amended its previous credit agreement (expiring in August 2011), extending the expiration date and reducing the size of the credit facility from \$300 million to \$275 million. The size was reduced based on management's review of past and forecasted utilization of the facility. The HEP Credit Agreement expires in February 2016; however, in the event that the 6.25% HEP Senior Notes (discussed later) are not repurchased, refinanced, extended or repaid prior to September 1, 2014, the HEP Credit Agreement will expire on that date. At June 30, 2011, HEP had outstanding borrowings totaling \$186 million under the HEP Credit Agreement, with unused borrowing capacity of \$89 million.

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets (presented parenthetically in our Consolidated Balance Sheets). Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. HEP's creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

If any particular lender could not honor its commitment under the HEP Credit agreement, HEP believes the unused capacity that would be available from the remaining lenders would be sufficient to meet its borrowing needs. Additionally, publicly available information on these lenders is reviewed in order to monitor their financial stability and assess their ongoing ability to honor their commitments under the HEP Credit Agreement. HEP does not expect to experience any difficulty in the lenders' ability to honor their respective commitments, and if it were to become necessary, HEP believes there would be alternative lenders or options available.

HollyFrontier Senior Notes Due 2017

Our \$300 million 9.875% senior notes (the "HollyFrontier 9.875% Senior Notes") mature in June 2017 and are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. At any time when the HollyFrontier 9.875% Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the HollyFrontier 9.875% Senior Notes.

HEP Senior Notes Due 2018 and 2015

In March 2010, HEP issued \$150 million in aggregate principal amount of 8.25% senior notes maturing in March 2018 (the "HEP 8.25% Senior Notes"). A portion of the \$147.5 million in net proceeds received was used to fund HEP's \$93 million purchase of certain storage assets at our Tulsa Refinery east facility and Navajo Refinery Lovington facility on March 31, 2010. Additionally, HEP used a portion to repay \$42 million in outstanding HEP Credit Agreement borrowings, with the remaining proceeds available for general partnership purposes, including working capital and capital expenditures.

HEP also has \$185 million in aggregate principal amount outstanding of 6.25% senior notes maturing in March 2015 (the "HEP 6.25% Senior Notes") that are registered with the SEC. The HEP 6.25% Senior Notes and HEP 8.25% Senior Notes (collectively, the "HEP Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

Table of Contents

Indebtedness under the HEP Senior Notes is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. However, any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. HEP's creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

See Risk Management for a discussion of HEP's interest rate swap contracts.

HollyFrontier Financing Obligation

In October 2009, we sold approximately 400,000 barrels of crude oil tankage at our Tulsa Refinery west facility as well as certain crude oil pipeline receiving facilities to an affiliate of Plains All American Pipeline, L.P. (Plains) for \$40 million in cash. In connection with this transaction, we entered into a 15-year lease agreement with Plains, whereby we agreed to pay a fixed monthly fee for the exclusive use of this tankage as well as a fee for volumes received at the receiving facilities purchased by Plains. Additionally, we have a margin sharing agreement with Plains under which we will equally share contango profits with Plains for crude oil purchased by them and delivered to our Tulsa Refinery west facility for storage. Due to our continuing involvement in these assets, this transaction has been accounted for as a financing obligation. As a result, we retained these assets on our books and recorded a liability representing the \$40 million in proceeds received.

Liquidity

We believe our current cash and cash equivalents, along with future internally generated cash flow and funds available under our credit facilities will provide sufficient resources to fund currently planned capital projects (including legacy Frontier projects not discussed below) and our liquidity needs for the foreseeable future. In addition, components of our growth strategy may include construction of new refinery processing units and the expansion of existing units at our facilities and selective acquisition of complementary assets for our refining operations intended to increase earnings and cash flow. Our ability to acquire complementary assets will be dependent upon several factors, including our ability to identify attractive acquisition candidates, consummate acquisitions on favorable terms, successfully integrate acquired assets and obtain financing to fund acquisitions and to support our growth, and many other factors beyond our control.

We began the third quarter as a combined company with over \$1.3 billion in cash, cash equivalents and marketable securities and a new \$1 billion revolving credit facility, significantly enhancing our liquidity position. We consider all highly-liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, and are invested primarily in conservative, highly-rated instruments issued by financial institutions or government entities with strong credit standings.

During the six months ended June 30, 2011, cash and cash equivalents increased by \$197.6 million. Net cash provided by operating activities of \$458 million exceeded cash used for investing and financing activities of \$255.1 million and \$5.3 million, respectively. Working capital increased by \$153.8 million during the six months ended June 30, 2011.

Cash Flows - Operating Activities

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Net cash flows provided by operating activities were \$458 million for the six months ended June 30, 2011 compared to net cash provided by operating activities of \$38.3 million for the six months ended June 30, 2010, an increase of \$419.7 million. Net income for the six months ended June 30, 2011 was \$292.8 million, an increase of \$243.4 million compared to \$49.4 million for the six months ended June 30, 2010. Non-cash adjustments consisting of depreciation and amortization, deferred income taxes, equity-based compensation expense and fair value adjustments to derivative instruments resulted in an increase to operating cash flows of \$72.3 million for the six months ended June 30, 2011 compared to \$46.5 million for the same period in 2010. Additionally, SLC Pipeline earnings, net of distributions decreased and increased operating cash flows by \$0.1 million for the six months ended June 30, 2011 and June 30, 2010, respectively. Changes in working capital

Table of Contents

items increased cash flows by \$105.5 million for the six months ended June 30, 2011 compared to a decrease of \$54.2 million for the six months ended June 30, 2010. Additionally, for the six months ended June 30, 2011, turnaround expenditures increased to \$19.8 million from \$8.7 million in 2010 due primarily to a major maintenance turnaround project at our Tulsa Refinery facilities that was completed in January 2011.

Cash Flows - Investing Activities and Planned Capital Expenditures

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Net cash flows used for investing activities were \$255.1 million for the six months ended June 30, 2011 compared to \$76.5 million for the six months ended June 30, 2010, an increase of \$178.6 million. Cash expenditures for properties, plants and equipment for the first six months of 2011 increased to \$156.3 million from \$76.5 million for the same period in 2010. These include HEP capital expenditures of \$22.9 million and \$4.5 million for the six months ended June 30, 2011 and 2010, respectively. Capital expenditures were significantly higher in the six months ending June 30, 2011 due to construction of the UNEV Pipeline system. During the six months ended June 30, 2011, we invested \$9.1 million in Sabine Biofuels, a development stage biodiesel production facility. Also, for the six months ended June 30, 2011, we invested \$157.8 million in marketable securities and received proceeds of \$68.2 million from the sale or maturity of marketable securities.

Planned Capital Expenditures

HollyFrontier Corporation

Each year our Board of Directors approves in our annual capital budget projects that our management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, other or special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures approved for capital projects included in the current year's capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. As of June 30, 2011, our total capital budget for 2011 is \$142.4 million. Additionally, capital costs of \$11.7 million have been approved for refinery turnarounds and tank work. We expect to spend approximately \$185 million in capital costs in 2011, including capital projects approved in prior years. Our capital spending for 2011 is comprised of \$24 million for projects at the Navajo Refinery, \$13 million for projects at the Woods Cross Refinery, \$70 million for projects at the Tulsa Refinery, \$69 million for our portion of the UNEV Pipeline project, \$3 million for asphalt plant projects and \$6 million for marketing-related and miscellaneous projects. The following summarizes our key capital projects as of June 30, 2011.

We are proceeding with the integration project of our Tulsa Refinery west and east facilities. Upon completion, the Tulsa Refinery will have an integrated crude processing rate of 125,000 BPSD. The integration project involves the installation of interconnect pipelines that will permit us to transfer various intermediate streams between the two facilities. Currently, we are using an existing third-party line for the transfer of intermediates from the west facility to the east facility under a 10-year agreement. These interconnect lines will allow us to eliminate the sale of gas oil at a discount to WTI under our 5-year gas oil off take agreement with a third party, optimize gasoline blending, increase our utilization of better process technology, improve yields and reduce operating costs. HEP is currently constructing five additional interconnect pipelines and we are currently negotiating terms for a long-term agreement with HEP to transfer intermediate products via these pipelines that will commence upon completion of the project. Also, as part of the integration, during the first quarter of 2011 we completed the expansion of the diesel hydrotreating unit at the east facility. This expanded unit will permit the processing of all high sulfur diesel produced to ULSD once the interconnecting pipelines are complete and available to move high sulfur diesel and hydrogen produced in the west facility to the east facility. We are currently planning to complete the integration projects by the end of this summer.

The Tulsa Refinery facilities also will be required to comply with new MSAT2 regulations in order to meet new federal benzene reduction requirements for gasoline. We have decided to primarily use existing equipment at the Tulsa Refinery east facility to split reformat from reformers at both west and east facilities and install a new benzene saturation unit to achieve the required benzene reduction at an estimated cost of \$29 million. We will be required to buy benzene credits to get the gasoline pool below 0.62% by volume until this project is complete, as required by law, beginning in 2011. There is an additional requirement to average 1.3% benzene levels on an annual basis beginning in July 2012.

Table of Contents

Our consent decree with the EPA requires recovery of sulfur from the refinery fuel gas system and the shutdown or replacement of two low pressure boilers at the Tulsa Refinery west facility by the end of 2013. Our Board of Directors have approved a project for \$44 million which would meet these requirements as well as increase our ability to run additional lower priced sour crude types at the Tulsa Refinery east facility. Also, we are evaluating the best solution to the low pressure boiler issue. In addition to the consent decree requirements, flare gas recovery and coker blowdown modifications are required to comply with new flare regulations at an estimated cost of \$10 million.

The Navajo Refinery currently plans to comply with the new MSAT2 regulations by the fractionation of naphtha by revamping an existing fractionation unit to achieve benzene in gasoline levels below 1.3%. The Navajo Refinery will purchase or use credits generated at the Tulsa Refinery to reduce benzene content to the required 0.62%. Due to our acquisition of the Tulsa Refinery facilities from Sunoco and Sinclair, our Navajo Refinery has until the end of 2011 to comply with the MSAT2 regulations because we no longer qualify for the small refiner's exemption. Also, we will be installing a new storm water surge tank and upgrading several other processes at the refinery's Artesia waste water treatment plant. These projects are expected to cost approximately \$17 million.

Our Woods Cross Refinery is required to install a wet gas scrubber on its FCC unit by the end of 2012. We estimate the total cost to be \$15 million. The MSAT2 solution for the refinery involves revamping its naphtha fractionation unit and installing a benzene saturation unit at an estimated cost of \$18 million. These projects will reduce benzene levels in gasoline below the 1.3% annual average level. The Woods Cross Refinery will purchase credits to meet the 0.62% benzene requirement. Like our Navajo Refinery, our Woods Cross Refinery has until the end of 2011 to comply with the MSAT2 regulations.

Under a definitive agreement with Sinclair, we are jointly building the UNEV Pipeline, a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas. Under the agreement, we own a 75% interest in the joint venture pipeline with Sinclair, our joint venture partner, owning the remaining 25% interest. The initial capacity of the pipeline will be 62,000 BPD (based on gasoline equivalents), with the capacity for further expansion to 120,000 BPD. The current total cost of the pipeline project including terminals is expected to be approximately \$385 million, with our share of the cost totaling \$289 million. This project includes the construction of ethanol blending and storage facilities at the Cedar City terminal. The pipeline is in the final construction phase and is expected to be mechanically complete in the fourth quarter of 2011.

In connection with this project, we have entered into a 10-year commitment to ship an annual average of 15,000 barrels per day of refined products on the UNEV Pipeline at an agreed tariff. Our commitment for each year is subject to reduction by up to 5,000 barrels per day in specified circumstances relating to shipments by other shippers. We have an option agreement with HEP granting them an option to purchase all of our equity interests in this joint venture pipeline effective for a 180-day period commencing when the UNEV Pipeline becomes operational, at a purchase price equal to our investment in this joint venture pipeline plus interest at 7% per annum.

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

HEP

Each year the Holly Logistic Services, L.L.C. board of directors approves HEP's annual capital budget, which specifies capital projects that HEP management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, HEP's planned capital expenditures for a given year consist of expenditures

Table of Contents

approved for capital projects included in its current year capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2011 HEP capital budget is comprised of \$5.8 million for maintenance capital expenditures and \$20.1 million for expansion capital expenditures.

As described under our Tulsa Refinery integration project, HEP is currently constructing five interconnecting pipelines between our Tulsa east and west refining facilities. The project is expected to cost approximately \$35 million with completion in the late summer of 2011. We are finalizing terms for a long-term agreement with HEP to transfer intermediate products via these pipelines that will commence upon completion of the project.

Additionally, HEP has two expansion projects to provide 60,000 bpd of additional crude pipeline take-away capacity resulting from increased Delaware Basin drilling activity in southeast New Mexico. The first project will increase one of HEP's existing crude oil trunk lines from 35,000 bpd to 60,000 bpd. This 35-mile pipeline transports crude oil from its gathering system in southeast New Mexico to our New Mexico refining facilities. The scope of the project includes the replacement of 5 miles of existing pipe with larger diameter pipe and the addition of a higher horsepower pump. HEP will commence shortly and is expected to be completed during the first half of 2012. The second project will consist of the reactivation and conversion to crude oil service a 70-mile, 8-inch petroleum products pipeline owned by HEP. Once in service, this pipeline would be capable of transporting up to 35,000 bpd of crude oil from rapidly developing Delaware Basin production in the Carlsbad, New Mexico area to either a third party common carrier pipeline station for transport to major crude oil markets or to our New Mexico refining facilities. The scope of this project is in the process of being finalized. It is anticipated that this project, subject to receipt of acceptable shipper support and board approval, could also be completed during the first half of 2012. These two expansion projects are currently estimated to cost approximately \$15 million.

Cash Flows - Financing Activities***Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010***

Net cash flows used for financing activities were \$5.3 million for the six months ended June 30, 2011 compared to net cash flows provided by financing activities of \$53.8 million for the six months ended June 30, 2010, a decrease of \$59.1 million. During the six months ended June 30, 2011, we paid \$0.6 million under our financing obligation to Plains, purchased \$3 million in common stock from employees to provide funds for the payment of payroll and income taxes due upon the vesting of certain share-based incentive awards, paid \$16 million in dividends, received an \$16.5 million contribution from our UNEV Pipeline joint venture partner and recognized \$1.4 million excess taxes on our equity based compensation. During the six months ended June 30, 2011, HEP received \$64 million and repaid \$37 million under the HEP Credit Agreement, paid distributions of \$25.1 million to noncontrolling interests, incurred \$3.3 million in deferred financing costs and purchased \$1.4 million in HEP common units in the open market for recipients of its restricted unit grants. During the six months ended June 30, 2010, we received and repaid \$310 million in advances under the HollyFrontier Credit Agreement, paid \$0.4 million under our financing obligation to Plains, paid \$15.9 million in dividends, purchased \$1.3 million in common stock from employees to provide funds for the payment of payroll and income taxes due upon the vesting of certain share-based incentive awards, received a \$5 million contribution from our UNEV Pipeline joint venture partner and recognized \$1.3 million in excess tax expense on our equity based compensation. During the six months ended June 30, 2010, HEP received \$147.5 million in net proceeds upon the issuance of the HEP 8.25% Senior Notes, received \$39 million and repaid \$90 million under the HEP Credit Agreement, paid distributions of \$23.9 million to noncontrolling interests and purchased \$2.3 million in HEP common units in the open market for recipients of its restricted unit grants. Additionally, \$2.7 million in deferred financing costs were incurred in connection with the issuance of the HEP 8.25% Senior Notes in March 2010 and an amendment to the HollyFrontier Credit Agreement.

Contractual Obligations and Commitments***HollyFrontier Corporation***

There were no significant changes to our contractual obligations during the six months ended June 30, 2011.

Table of Contents

HEP

During the six months ended June 30, 2011, HEP received net advances of \$27 million resulting in \$186 million of outstanding borrowings under the HEP Credit Agreement at June 30, 2011.

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

CRITICAL ACCOUNTING POLICIES

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

Our significant accounting policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2010. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements are the use of the LIFO method of valuing certain inventories, the amortization of deferred costs for regular major maintenance and repairs at our refineries, assessing the possible impairment of certain long-lived assets, and assessing contingent liabilities for probable losses. There have been no changes to these policies in 2011.

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

RISK MANAGEMENT

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

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations.

We periodically enter into derivative contracts in the form of commodity price swaps to mitigate price exposure with respect to:

our inventory positions;

natural gas purchases;

costs of crude oil;

prices of refined products; and

our refining margins.

Edgar Filing: HollyFrontier Corp - Form 10-Q

As of June 30, 2011, we have outstanding commodity price swap contracts serving as economic hedges to protect the value of temporary inventory builds of 210,000 barrels against price volatility and to lock in the spread between WTS and WTI crude oil with respect to forecasted purchases of 3.5 million barrels of crude oil. These contracts are measured quarterly at fair value with offsetting adjustments (gains / losses) recorded directly to cost of products sold.

- 46 -

Table of Contents

Interest Rate Risk Management

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

As of June 30, 2011, HEP has an interest rate swap that hedges its exposure to the cash flow risk caused by the effects of LIBOR changes on a \$155 million HEP Credit Agreement advance. This interest rate swap effectively converts \$155 million of LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 2.50%, which equaled an effective interest rate of 6.24% as of June 30, 2011. This interest rate swap contract has been designated as a cash flow hedge and matures in February 2013.

This contract initially hedged variable LIBOR interest on \$171 million in outstanding HEP Credit Agreement debt. In May 2010, HEP repaid \$16 million of the HEP Credit Agreement debt and also settled a corresponding portion of its interest rate swap agreement having a notional amount of \$16 million for \$1.1 million. Upon payment, HEP reduced its swap liability and reclassified a \$1.1 million charge from accumulated other comprehensive loss to interest expense, representing the application of hedge accounting prior to settlement.

The following table presents balance sheet locations and related fair values of outstanding derivative instruments.

Derivative Instruments	Balance Sheet		Location of Offsetting		Offsetting Amount
	Location	Fair Value (Dollars in thousands)	Balance		
June 30, 2011					
<i>Derivative designated as cash flow hedging instrument:</i>					
Variable-to-fixed interest rate swap contract (\$155 million LIBOR based debt interest payments)	Other long-term liabilities	\$ 8,472	Accumulated other comprehensive loss		\$ 8,472
<i>Derivatives not designated as hedging instruments:</i>					
Variable-to-fixed commodity price swap contracts (various inventory positions)	Prepayments and other current assets	\$ 7,958	Cost of products sold (decrease)		\$ 7,958
Fixed/variable-to-variable/fixed commodity price contracts (various inventory positions)	Accrued liabilities	\$ 1,300	Cost of products sold (increase)		\$ 1,300
December 31, 2010					
<i>Derivatives designated as cash flow hedging instruments:</i>					
Variable-to-fixed commodity price swap contracts (forecasted volumes of natural gas purchases)	Accrued liabilities	\$ 38	Accumulated other comprehensive loss		\$ 38
Variable-to-fixed interest rate swap contract (\$155 million LIBOR based debt interest payments)	Other long-term liabilities	\$ 10,026	Accumulated other comprehensive loss		\$ 10,026

Derivatives not designated as hedging instruments:

Fixed-to-variable rate swap contracts (various inventory positions)	Accrued liabilities	\$ 497	Cost of products sold (increase)	\$ 497
--	---------------------	--------	----------------------------------	--------

For the three and six months ended June 30, 2011, maturities and fair value adjustments attributable to our economic hedges resulted in a \$3 million decrease and a \$0.7 million increase, respectively, to costs of products sold.

For the three and six months ended June 30, 2010, HEP recognized \$1.5 million in charges to interest expense as a result of fair value changes to interest rate swap contracts that were settled in the first quarter of 2010.

There was no ineffectiveness on the cash flow hedges during the periods covered in these consolidated financial statements.

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

Table of Contents

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

At June 30, 2011, outstanding principal under the HollyFrontier 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes was \$300 million, \$185 million and \$150 million, respectively. For these fixed rate notes, changes in interest rates will generally affect fair value of the debt, but not our earnings or cash flows. At June 30, 2011, the estimated fair values of the HollyFrontier 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes were \$333.8 million, \$184.1 million and \$159.4 million, respectively. We estimate that a hypothetical 10% change in the yield-to-maturity rates applicable to these notes would result in a fair value change to the notes of approximately \$12.7 million, \$4.3 million and \$6.2 million, respectively.

For the variable rate HEP Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At June 30, 2011, borrowings outstanding under the HEP Credit Agreement were \$186 million. By means of its cash flow hedge, HEP has effectively converted the variable rate on \$155 million of outstanding principal to a fixed rate of 6.24%. For the unhedged \$31 million portion, a hypothetical 10% change in interest rates applicable to the HEP Credit Agreement would not materially affect cash flows.

At June 30, 2011, cash and cash equivalents included investments in investment grade, highly liquid investments with maturities of three months or less at the time of purchase and hence the interest rate market risk implicit in these cash investments is low. Due to the short-term nature of our cash and cash equivalents, a hypothetical 10% increase in interest rates would not have a material effect on the fair market value of our portfolio. Since we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected by the effect of a sudden change in market interest rates on our investment portfolio.

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

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

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

See Risk Management under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles***Reconciliations of earnings before interest, taxes, depreciation and amortization (EBITDA) to amounts reported under generally accepted accounting principles in financial statements.***

Earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, is calculated as net income attributable to HollyFrontier stockholders plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for financial covenants.

Set forth below is our calculation of EBITDA.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income attributable to HollyFrontier stockholders	\$ 192,235	\$ 66,162	\$ 276,929	\$ 38,068
Add income tax provision	111,961	39,654	160,972	22,982
Add interest expense	15,193	21,023	31,397	38,745
Subtract interest income	(657)	(635)	(742)	(694)
Add depreciation and amortization	31,832	28,824	63,140	56,581
EBITDA	\$ 350,564	\$ 155,028	\$ 531,696	\$ 155,682

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

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

We calculate refinery gross margin and net operating margin using net sales, cost of products and operating expenses, in each case averaged per produced barrel sold. These two margins do not include the effect of depreciation and amortization. Each of these component performance measures can be reconciled directly to our Consolidated Statements of Income.

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

Table of Contents*Refinery Gross Margin*

Refinery gross margin per barrel is the difference between average net sales price and average cost of products per barrel of produced refined products. Refinery gross margin for each of our refineries and for our three refineries on a consolidated basis is calculated as shown below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Average per produced barrel:				
<i>Navajo Refinery</i>				
Net sales	\$ 126.36	\$ 91.21	\$ 119.35	\$ 89.70
Less cost of products	104.24	82.08	100.30	82.50
Refinery gross margin	\$ 22.12	\$ 9.13	\$ 19.05	\$ 7.20
<i>Woods Cross Refinery</i>				
Net sales	\$ 128.02	\$ 96.62	\$ 118.62	\$ 93.15
Less cost of products	99.79	74.26	94.95	74.48
Refinery gross margin	\$ 28.23	\$ 22.36	\$ 23.67	\$ 18.67
<i>Tulsa Refinery</i>				
Net sales	\$ 129.11	\$ 90.93	\$ 122.65	\$ 88.74
Less cost of products	109.94	81.32	105.53	82.05
Refinery gross margin	\$ 19.17	\$ 9.61	\$ 17.12	\$ 6.69
<i>Consolidated</i>				
Net sales	\$ 127.87	\$ 91.75	\$ 120.85	\$ 89.69
Less cost of products	106.45	80.74	102.16	81.26
Refinery gross margin	\$ 21.42	\$ 11.01	\$ 18.69	\$ 8.43

Net Operating Margin

Net operating margin per barrel is the difference between refinery gross margin and refinery operating expenses per barrel of produced refined products. Net operating margin for each of our refineries and for our three refineries on a consolidated basis is calculated as shown below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Average per produced barrel:				
<i>Navajo Refinery</i>				
Refinery gross margin	\$ 22.12	\$ 9.13	\$ 19.05	\$ 7.20
Less refinery operating expenses	5.17	4.61	5.71	4.88
Net operating margin	\$ 16.95	\$ 4.52	\$ 13.34	\$ 2.32

Edgar Filing: HollyFrontier Corp - Form 10-Q

Woods Cross Refinery

Refinery gross margin	\$ 28.23	\$ 22.36	\$ 23.67	\$ 18.67
Less refinery operating expenses	6.16	5.30	6.29	5.74
Net operating margin	\$ 22.07	\$ 17.06	\$ 17.38	\$ 12.93

Tulsa Refinery

Refinery gross margin	\$ 19.17	\$ 9.61	\$ 17.12	\$ 6.69
Less refinery operating expenses	5.56	4.70	5.76	5.26
Net operating margin	\$ 13.61	\$ 4.91	\$ 11.36	\$ 1.43

Consolidated

Refinery gross margin	\$ 21.42	\$ 11.01	\$ 18.69	\$ 8.43
Less refinery operating expenses	5.48	4.74	5.80	5.17
Net operating margin	\$ 15.94	\$ 6.27	\$ 12.89	\$ 3.26

- 50 -

Table of Contents

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(Dollars in thousands, except per barrel amounts)				
Navajo Refinery				
Average sales price per produced barrel sold	\$ 126.36	\$ 91.21	\$ 119.35	\$ 89.70
Times sales of produced refined products sold (BPD)	94,340	93,040	87,130	90,000
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 1,084,793	\$ 772,242	\$ 1,882,213	\$ 1,461,213
Woods Cross Refinery				
Average sales price per produced barrel sold	\$ 128.02	\$ 96.62	\$ 118.62	\$ 93.15
Times sales of produced refined products sold (BPD)	27,600	29,070	27,130	28,620
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 321,535	\$ 255,596	\$ 582,487	\$ 482,537
Tulsa Refinery				
Average sales price per produced barrel sold	\$ 129.11	\$ 90.93	\$ 122.65	\$ 88.74
Times sales of produced refined products sold (BPD)	112,710	111,880	106,400	105,360
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 1,324,231	\$ 925,766	\$ 2,362,043	\$ 1,692,286
Sum of refined product sales from produced products sold from our three refineries ⁽¹⁾	\$ 2,730,559	\$ 1,953,604	\$ 4,826,743	\$ 3,636,036
Add refined product sales from purchased products and rounding ⁽²⁾	63,038	27,296	138,659	68,680
Total refined product sales	2,793,597	1,980,900	4,965,402	3,704,716
Add direct sales of excess crude oil ⁽³⁾	138,492	114,155	273,901	249,017
Add other refining segment revenue ⁽⁴⁾	21,137	42,306	29,015	50,801
Total refining segment revenue	2,953,226	2,137,361	5,268,318	4,004,534
Add HEP segment sales and other revenues	50,940	45,483	95,945	86,172
Add corporate and other revenues	153	150	801	217
Subtract consolidations and eliminations	(37,186)	(37,134)	(71,346)	(70,773)
Sales and other revenues	\$ 2,967,133	\$ 2,145,860	\$ 5,293,718	\$ 4,020,150

(1)

Edgar Filing: HollyFrontier Corp - Form 10-Q

The above calculations of refined product sales from produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.

- (2) We purchase finished products when opportunities arise that provide a profit on the sale of such products, or to meet delivery commitments.*
- (3) We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold. Additionally, we enter into buy/sell exchanges of crude oil with certain parties to facilitate the delivery of quantities to certain locations that are netted at carryover cost.*
- (4) Other refining segment revenue includes the revenues associated with NK Asphalt and revenue derived from feedstock and sulfur credit sales.*

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per barrel amounts)			
Average sales price per produced barrel sold	\$ 127.87	\$ 91.75	\$ 120.85	\$ 89.69
Times sales of produced refined products sold (BPD)	234,650	233,990	220,660	223,980
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 2,730,559	\$ 1,953,604	\$ 4,826,743	\$ 3,636,036

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per barrel amounts)			
Navajo Refinery				
Average cost of products per produced barrel sold	\$ 104.24	\$ 82.08	\$ 100.30	\$ 82.50
Times sales of produced refined products sold (BPD)	94,340	93,040	87,130	90,000
Times number of days in period	91	91	181	181
Cost of products for produced products sold	\$ 894,894	\$ 694,942	\$ 1,581,784	\$ 1,343,925
Woods Cross Refinery				
Average cost of products per produced barrel sold	\$ 99.79	\$ 74.26	\$ 94.95	\$ 74.48
Times sales of produced refined products sold (BPD)	27,600	29,070	27,130	28,620
Times number of days in period	91	91	181	181
Cost of products for produced products sold	\$ 250,633	\$ 196,445	\$ 466,255	\$ 385,823
Tulsa Refinery				
Average cost of products per produced barrel sold	\$ 109.94	\$ 81.32	\$ 105.53	\$ 82.05
Times sales of produced refined products sold (BPD)	112,710	111,880	106,400	105,360
Times number of days in period	91	91	181	181
Cost of products for produced products sold	\$ 1,127,612	\$ 827,925	\$ 2,032,339	\$ 1,564,707
Sum of cost of products for produced products sold from our three refineries ⁽¹⁾	\$ 2,273,139	\$ 1,719,312	\$ 4,080,378	\$ 3,294,455
Add refined product costs from purchased products sold and rounding ⁽²⁾	64,110	27,827	139,583	69,329
Total refined cost of products sold	2,337,249	1,747,139	4,219,961	3,363,784
Add crude oil cost of direct sales of excess crude oil ⁽³⁾	135,981	112,885	268,861	246,552
Add other refining segment cost of products sold ⁽⁴⁾	10,205	24,738	12,539	30,859
Total refining segment cost of products sold	2,483,435	1,884,762	4,501,361	3,641,195
Subtract consolidations and eliminations	(36,340)	(36,550)	(69,649)	(69,119)
Costs of products sold (exclusive of depreciation and amortization)	\$ 2,447,095	\$ 1,848,212	\$ 4,431,712	\$ 3,572,076

Edgar Filing: HollyFrontier Corp - Form 10-Q

- (1) The above calculations of cost of products for produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.*
- (2) We purchase finished products when opportunities arise that provide a profit on the sale of such products, or to meet delivery commitments.*
- (3) We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold. Additionally, we enter into buy/sell exchanges of crude oil with certain parties to facilitate the delivery of quantities to certain locations that are netted at carryover cost.*
- (4) Other refining segment cost of products sold includes the cost of products for NK Asphalt and costs attributable to feedstock and sulfur credit sales.*

- 52 -

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per barrel amounts)			
Average cost of products per produced barrel sold	\$ 106.45	\$ 80.74	\$ 102.16	\$ 81.26
Times sales of produced refined products sold (BPD)	234,650	233,990	220,660	223,980
Times number of days in period	91	91	181	181
Cost of products for produced products sold	\$ 2,273,139	\$ 1,719,312	\$ 4,080,378	\$ 3,294,455

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per barrel amounts)			
Navajo Refinery				
Average refinery operating expenses per produced barrel sold	\$ 5.17	\$ 4.61	\$ 5.71	\$ 4.88
Times sales of produced refined products sold (BPD)	94,340	93,040	87,130	90,000
Times number of days in period	91	91	181	181
Refinery operating expenses for produced products sold	\$ 44,384	\$ 39,031	\$ 90,050	\$ 79,495
Woods Cross Refinery				
Average refinery operating expenses per produced barrel sold	\$ 6.16	\$ 5.30	\$ 6.29	\$ 5.74
Times sales of produced refined products sold (BPD)	27,600	29,070	27,130	28,620
Times number of days in period	91	91	181	181
Refinery operating expenses for produced products sold	\$ 15,471	\$ 14,020	\$ 30,887	\$ 29,734
Tulsa Refinery				
Average refinery operating expenses per produced barrel sold	\$ 5.56	\$ 4.70	\$ 5.76	\$ 5.26
Times sales of produced refined products sold (BPD)	112,710	111,880	106,400	105,360
Times number of days in period	91	91	181	181
Refinery operating expenses for produced products sold	\$ 57,027	\$ 47,851	\$ 110,928	\$ 100,309
Sum of refinery operating expenses per produced products sold from our three refineries ⁽¹⁾	\$ 116,882	\$ 100,902	\$ 231,865	\$ 209,538
Add other refining segment operating expenses and rounding ⁽²⁾	8,399	6,549	15,495	12,507
Total refining segment operating expenses	125,281	107,451	247,360	222,045
Add HEP segment operating expenses	14,366	13,495	27,162	26,555
Add corporate and other costs	(168)	12	(174)	18
Subtract consolidations and eliminations	(134)	(127)	(260)	(243)
Operating expenses (exclusive of depreciation and amortization)	\$ 139,345	\$ 120,831	\$ 274,088	\$ 248,375

Edgar Filing: HollyFrontier Corp - Form 10-Q

- (1) *The above calculations of refinery operating expenses from produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.*
- (2) *Other refining segment operating expenses include the marketing costs associated with our refining segment and the operating expenses of NK Asphalt.*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(Dollars in thousands, except per barrel amounts)			
Average refinery operating expenses per produced barrel sold	\$ 5.48	\$ 4.74	\$ 5.80	\$ 5.17
Times sales of produced refined products sold (BPD)	234,650	233,990	220,660	223,980
Times number of days in period	91	91	181	181
 Refinery operating expenses for produced products sold	 \$ 116,882	 \$ 100,902	 \$ 231,865	 \$ 209,538

- 53 -

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(Dollars in thousands, except per barrel amounts)				
Navajo Refinery				
Net operating margin per barrel	\$ 16.95	\$ 4.52	\$ 13.34	\$ 2.32
Add average refinery operating expenses per produced barrel	5.17	4.61	5.71	4.88
Refinery gross margin per barrel	22.12	9.13	19.05	7.20
Add average cost of products per produced barrel sold	104.24	82.08	100.30	82.50
Average sales price per produced barrel sold	\$ 126.36	\$ 91.21	\$ 119.35	\$ 89.70
Times sales of produced refined products sold (BPD)	94,340	93,040	87,130	90,000
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 1,084,793	\$ 772,242	\$ 1,882,213	\$ 1,461,213
Woods Cross Refinery				
Net operating margin per barrel	\$ 22.07	\$ 17.06	\$ 17.38	\$ 12.93
Add average refinery operating expenses per produced barrel	6.16	5.30	6.29	5.74
Refinery gross margin per barrel	28.23	22.36	23.67	18.67
Add average cost of products per produced barrel sold	99.79	74.26	94.95	74.48
Average sales price per produced barrel sold	\$ 128.02	\$ 96.62	\$ 118.62	\$ 93.15
Times sales of produced refined products sold (BPD)	27,600	29,070	27,130	28,620
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 321,535	\$ 255,596	\$ 582,487	\$ 482,537
Tulsa Refinery				
Net operating margin per barrel	\$ 13.61	\$ 4.91	\$ 11.36	\$ 1.43
Add average refinery operating expenses per produced barrel	5.56	4.70	5.76	5.26
Refinery gross margin per barrel	19.17	9.61	17.12	6.69
Add average cost of products per produced barrel sold	109.94	81.32	105.53	82.05
Average sales price per produced barrel sold	\$ 129.11	\$ 90.93	\$ 122.65	\$ 88.74
Times sales of produced refined products sold (BPD)	112,710	111,880	106,400	105,360
Times number of days in period	91	91	181	181
Refined product sales from produced products sold	\$ 1,324,231	\$ 925,766	\$ 2,362,043	\$ 1,692,286
Sum of refined product sales from produced products sold from our three refineries ⁽¹⁾	\$ 2,730,559	\$ 1,953,604	\$ 4,826,743	\$ 3,636,036
Add refined product sales from purchased products and rounding ⁽²⁾	63,038	27,296	138,659	68,680
Total refined product sales	2,793,597	1,980,900	4,965,402	3,704,716
Add direct sales of excess crude oil ⁽³⁾	138,492	114,155	273,901	249,017

Edgar Filing: HollyFrontier Corp - Form 10-Q

Add other refining segment revenue ⁽⁴⁾	21,137	42,306	29,015	50,801
Total refining segment revenue	2,953,226	2,137,361	5,268,318	4,004,534
Add HEP segment sales and other revenues	50,940	45,483	95,945	86,172
Add corporate and other revenues	153	150	801	217
Subtract consolidations and eliminations	(37,186)	(37,134)	(71,346)	(70,773)
Sales and other revenues	\$ 2,967,133	\$ 2,145,860	\$ 5,293,718	\$ 4,020,150

- (1) *The above calculations of refined product sales from produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.*
- (2) *We purchase finished products when opportunities arise that provide a profit on the sale of such products or to meet delivery commitments.*
- (3) *We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold. Additionally, we enter into buy/sell exchanges of crude oil with certain parties to facilitate the delivery of quantities to certain locations that are netted at carryover cost.*
- (4) *Other refining segment revenue includes the revenues associated with NK Asphalt and revenue derived from feedstock and sulfur credit sales.*

- 54 -

Table of Contents

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	<small>(Dollars in thousands, except per barrel amounts)</small>			
Net operating margin per barrel	\$ 15.94	\$ 6.27	\$ 12.89	\$ 3.26
Add average refinery operating expenses per produced barrel	5.48	4.74	5.80	5.17
Refinery gross margin per barrel	21.42	11.01	18.69	8.43
Add average cost of products per produced barrel sold	106.45			