HollyFrontier Corp
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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)

Delaware	**75-1056913**
(State or other jurisdiction of	**(I.R.S. Employer Identification No.)**
incorporation or organization)	
2828 N. Harwood, Suite 1300	
Dallas, Texas	**75201**
(Address of principal executive offices)	**(Zip Code)**

(214) 871-3555

Registrant s telephone number, including area code

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x	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 x

209,234,863 shares of Common Stock, par value $.01 per share, were outstanding on October 28, 2011.

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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 prior to July 1, 2011 include Holly and its consolidated subsidiaries and do not include Frontier and its consolidated subsidiaries. References herein to HollyFrontier with respect to time periods from and after July 1, 2011 include the operations of the merged Frontier business. Unless otherwise specified, the financial statements included herein include financial information for the merged Frontier business operations for the period July 1, 2011 to September 30, 2011. 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 t any other person. Also, the words we, our, ours and us generally include Holly Energy Partners, L.P. (HEP) and its subsidiaries as consolida 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;

- 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 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.

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DEFINITIONS

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

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

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.

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

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

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

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

LPG means liquid petroleum gases.

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

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.

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Item 1. Financial Statements

HOLLYFRONTIER CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents *(HEP: $1,802 and $403, respectively)*	$ 1,582,859	$ 229,101
Marketable securities	133,445	1,343
Accounts receivable: Product and transportation *(HEP: $23,821 and $22,508, respectively)*	584,792	299,081
Crude oil resales	756,891	694,035
	1,341,683	993,116
Inventories: Crude oil and refined products	1,168,129	353,636
Materials and supplies *(HEP: $703 and $202, respectively)*	97,390	46,731
	1,265,519	400,367
Income taxes receivable		51,034
Prepayments and other *(HEP: $942 and $573, respectively)*	55,582	28,474
Total current assets	4,379,088	1,703,435
Properties, plants and equipment, at cost *(HEP: $583,852 and $552,398, respectively)*	3,533,309	2,215,828
Less accumulated depreciation *(HEP: $(80,604) and $(60,300), respectively)*	(536,781)	(459,137)
	2,996,528	1,756,691
Marketable securities (long-term)	43,049	
Other assets: Turnaround costs	62,043	69,533
Goodwill *(HEP: $81,602 and $81,602)*	2,317,756	81,602
Intangibles and other *(HEP: $74,489 and $72,434, respectively)*	117,999	90,214
	2,497,798	241,349
Total assets	$ 9,916,463	$ 3,701,475
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable *(HEP: $7,683 and $10,238, respectively)*	$ 2,102,915	$ 1,317,446
Income taxes payable	140,086	
Accrued liabilities *(HEP: $11,998 and $21,206, respectively)*	137,839	72,409
Total current liabilities	2,380,840	1,389,855
Long-term debt *(HEP: $527,213 and $482,271, respectively)*	1,224,987	810,561
Deferred income taxes	511,083	131,935
Other long-term liabilities *(HEP: $8,144 and $10,809, respectively)*	138,763	80,985

Equity:		
HollyFrontier stockholders equity:		
Preferred stock, $1.00 par value 5,000,000 shares authorized; none issued		
Common stock $.01 par value 320,000,000 shares authorized; 255,962,866 and 152,692,864 shares issued as of September 30, 2011 and December 31, 2010, respectively	2,560	1,526
Additional capital	3,895,618	193,615
Retained earnings	1,866,873	1,206,328
Accumulated other comprehensive loss	(12,700)	(26,246)
Common stock held in treasury, at cost 46,728,003 and 46,163,488 shares as of September 30, 2011 and December 31, 2010, respectively	(697,421)	(677,804)
Total HollyFrontier stockholders equity	5,054,930	697,419
Noncontrolling interest	605,860	590,720
Total equity	5,660,790	1,288,139
Total liabilities and equity	$ 9,916,463	$ 3,701,475

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (HEP) as of September 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 reflect financial information of the former Frontier business operations beginning July 1, 2011.

See accompanying notes.

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HOLLYFRONTIER CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales and other revenues	$ 5,173,398	$ 2,090,988	$ 10,467,116	$ 6,111,138
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	3,989,927	1,807,044	8,421,639	5,379,120
Operating expenses (exclusive of depreciation and amortization)	227,883	130,263	501,971	378,638
General and administrative expenses (exclusive of depreciation and amortization)	43,141	16,925	78,641	50,623
Depreciation and amortization	43,240	29,138	106,380	85,719
Total operating costs and expenses	4,304,191	1,983,370	9,108,631	5,894,100
Income from operations	869,207	107,618	1,358,485	217,038
Other income (expense):				
Earnings of equity method investments	532	570	1,739	1,595
Interest income	204	64	946	758
Interest expense	(25,074)	(17,368)	(56,471)	(56,113)
Merger transaction costs	(9,100)		(15,114)	
	(33,438)	(16,734)	(68,900)	(53,760)
Income before income taxes	835,769	90,884	1,289,585	163,278
Income tax provision:				
Current	296,670	9,042	461,210	48,964
Deferred	8,088	22,452	4,520	5,512
	304,758	31,494	465,730	54,476
Net income	531,011	59,390	823,855	108,802
Less net income attributable to noncontrolling interest	7,923	8,213	23,838	19,557
Net income attributable to HollyFrontier stockholders	$ 523,088	$ 51,177	$ 800,017	$ 89,245
Earnings per share attributable to HollyFrontier stockholders:				
Basic	$ 2.50	$ 0.48	$ 5.66	$ 0.84
Diluted	$ 2.48	$ 0.48	$ 5.63	$ 0.83
Cash dividends declared per common share	$ 1.09	$ 0.08	$ 1.24	$ 0.23
Average number of common shares outstanding:				

Basic	209,583	106,420	141,353	106,344
Diluted	210,579	107,134	142,092	107,062

See accompanying notes.

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HOLLYFRONTIER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2011	**2010**
Cash flows from operating activities:		
Net income	$ 823,855	$ 108,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,380	85,719
Earnings of equity method investments, net of distributions	198	406
Deferred income taxes	4,520	5,512
Equity based compensation expense	15,535	7,814
Change in fair value derivative instruments	(5,920)	1,464
(Increase) decrease in current assets:		
Accounts receivable	389,289	43,984
Inventories	(195,575)	(110,502)
Income taxes receivable	51,034	11,803
Prepayments and other	7,778	(304)
Current assets of discontinued operations		2,195
Increase (decrease) in current liabilities:		
Accounts payable	(297,080)	69,030
Income taxes payable	182,468	
Accrued liabilities	28,999	17,971
Turnaround expenditures	(27,985)	(11,453)
Other, net	5,707	3,527
Net cash provided by operating activities	1,089,203	235,968
Cash flows from investing activities:		
Additions to properties, plants and equipment	(242,730)	(119,885)
Additions to properties, plants and equipment HEP	(31,493)	(8,054)
Increase in cash due to merger with Frontier	872,158	
Investment in Sabine Biofuels	(9,125)	
Purchases of marketable securities	(370,042)	
Sales and maturities of marketable securities	194,386	
Net cash provided by (used for) investing activities	413,154	(127,939)
Cash flows from financing activities:		
Borrowings under credit agreement		310,000
Repayments under credit agreement		(310,000)
Borrowings under credit agreement HEP	93,000	52,000
Repayments under credit agreement HEP	(50,000)	(101,000)
Proceeds from issuance of senior notes HEP		147,540
Principal tender on 8.5% senior notes	(15)	
Repayments under financing obligation	(857)	(760)
Purchase of treasury stock	(38,955)	(1,308)
Contribution from joint venture partner	27,500	9,500

Dividends	(129,377)	(23,889)
Distributions to noncontrolling interest	(37,929)	(36,139)
Excess tax benefit from equity based compensation	1,399	(1,313)
Purchase of units for restricted grants HEP	(1,641)	(2,276)
Deferred financing costs	(11,724)	(3,121)
Issuance of common stock upon exercise of options		61
Net cash provided by (used for) financing activities	(148,599)	39,295
Cash and cash equivalents:		
Increase for the period	1,353,758	147,324
Beginning of period	229,101	124,596
End of period	$ 1,582,859	$ 271,920
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 50,570	$ 49,051
Income taxes	$ 225,499	$ 45,040

See accompanying notes.

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HOLLYFRONTIER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 531,011	$ 59,390	$ 823,855	$ 108,802
Other comprehensive income (loss):				
Securities available-for-sale:				
Unrealized loss on available-for-sale securities	(649)	(51)	(1,032)	(58)
Reclassification adjustment to net income on sale or maturity of marketable securities	(6)		60	
Total unrealized loss on available-for-sale securities	(655)	(51)	(972)	(58)
Hedging instruments:				
Change in fair value of cash flow hedging instruments	23,272	(1,780)	24,864	(4,837)
Reclassification adjustment to net income on settlement of cash flow hedging instruments		(65)		1,011
Total unrealized gain (loss) on hedging instruments	23,272	(1,845)	24,864	(3,826)
Retirement medical obligation adjustment	9		9	
Other comprehensive income (loss) before income taxes	22,626	(1,896)	23,901	(3,884)
Income tax expense (benefit)	8,520	(558)	8,618	(420)
Other comprehensive income (loss)	14,106	(1,338)	15,283	(3,464)
Total comprehensive income	545,117	58,052	839,138	105,338
Less noncontrolling interest in comprehensive income	8,640	7,752	25,575	16,753
Comprehensive income attributable to HollyFrontier stockholders	$ 536,477	$ 50,300	$ 813,563	$ 88,585

See accompanying notes.

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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). References herein to HollyFrontier Corporation with respect to time periods prior to July 1, 2011 include Holly and its consolidated subsidiaries and do not include Frontier and its consolidated subsidiaries. References herein to HollyFrontier with respect to time periods from and after July 1, 2011 include the operations of the merged Frontier businesses. Unless otherwise specified, the financial statements included herein include financial information for the merged Frontier business operations for the period July 1, 2011 to September 30, 2011. 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. Also, 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 September 30, 2011, we:

- owned and operated five 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), two refinery facilities located in Tulsa, Oklahoma (collectively, the Tulsa Refinery), a refinery in El Dorado, Kansas (the El Dorado Refinery) and a refinery located in Cheyenne, Wyoming (the Cheyenne 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 Ethanol Management Company (EMC), a products terminal and blending facility near Denver, Colorado and a 50% interest in Sabine Biofuels II, LLC (Sabine Biofuels) a development stage biodiesel production facility located in Port Arthur, Texas, and

- 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 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 September 30, 2011, the consolidated results of operations and comprehensive income for the three and the nine months ended September 30, 2011 and 2010 and consolidated cash flows for the nine months ended September 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

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consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 that has been filed with the SEC.

On August 3, 2011, our Board of Directors declared a two-for-one stock split, payable in the form of a common stock dividend for each issued and outsatnding share of our common stock. The stock dividend was paid August 31, 2011 to all shareholders of record on August 24, 2011. We have retained the current par value of $0.01 per share for all shares of our common stock and have reclassified $763,000 (the amount equal to the par value of the additional stock issued) from additional capital to common stock to reflect this stock split at December 31, 2010. All references to share and per share amounts in these consolidated financial statements and related disclosures have been adjusted to reflect the effect of the stock split for all periods presented.

Beginning July 1, 2011, our business operations reflect the merged Frontier businesses (see Note 2). Our results of operations for the first nine 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 September 30, 2011, our allowance for doubtful accounts reserve was $3.5 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.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually or more frequently if events or circumstances indicate the possibility of impairment. As of September 30, 2011 there have been no impairments to goodwill.

New Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, an accounting standard update was issued that requires the presentation of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements and eliminates the option to present the components of other comprehensive income in the statement of stockholders equity. This accounting standard update is effective January 1, 2012 and will be applied retrospectively. This update will not have an impact on our financial condition, results of operations and cash flows.

Intangibles Goodwill and Other: Testing Goodwill for Impairment

In September 2011, an accounting standard update was issued that allows entities an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this option, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that the reporting unit s fair value is less than its carrying amount. This accounting standard update is effective for annual and interim goodwill impairment tests performed beginning January 1, 2012. This update will not have an impact on our financial condition, results of operations and cash flows.

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 for purposes of creating a more diversified, combined company having a broader geographic sales footprint, stronger financial position and to reduce corporate overhead through the

realization of synergies and promote earnings per share accretion. The legacy Frontier business operations consist of crude oil refining and the wholesale marketing of refined petroleum products. Frontier operates refineries in Cheyenne, Wyoming (the Cheyenne Refinery) and El Dorado, Kansas (the El Dorado Refinery) that serve markets in the Rocky Mountain and Plains States regions of the United States. The combined annual average crude oil capacity of these refineries is approximately 187,000 barrels per day.

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

In accordance with the merger agreement, we issued approximately 102.8 million shares of HollyFrontier common stock in exchange for outstanding shares of Frontier common stock to former Frontier stockholders. Each outstanding share of Frontier common stock was converted into 0.4811 shares of HollyFrontier common stock with any fractional shares paid in cash. The aggregate consideration paid in connection with the merger was approximately $3.7 billion. This is based on our July 1, 2011 market closing price of $35.93 and includes a portion of the fair value of the outstanding quity-based awards assumed from Frontier that relates to pre-merger services. The number of shares issued in connection with our merger with Frontier and the closing market price of our common stock at July 1, 2011 has been adjusted to reflect the two-for-one stock split on August 31, 2011.

The merger has been accounted for using the acquisition method of accounting with Holly being considered the acquirer of Frontier for accounting purposes. Therefore, the purchase price was allocated to the fair value of the acquired assets and assumed liabilities at the acquisition date, with the excess purchase price being recorded as goodwill. Goodwill is not deductible for income tax purposes.

The following table summarizes our preliminary fair value estimates of the Frontier assets and liabilities recognized upon our merger on July 1, 2011:

	(in millions)
Cash and cash equivalents	$ 872
Accounts receivable	738
Inventories	670
Properties, plants and equipment	1,052
Goodwill	2,235
Income taxes receivable	38
Other assets	12
Accounts payable	(1,072)
Accrued liabilities	(41)
Long-term debt	(371)
Other long-term liabilities	(65)
Deferred income taxes	(361)
Net tangible and intangible assets acquired and liabilities assumed	$ 3,707

Due to the short time frame since July 1, 2011, our valuations of the acquired Frontier assets and liabilities are not final as of September 30, 2011. These fair value estimates, including the value of goodwill and the allocation, thereof to our reporting units are preliminary in nature and therefore, may change upon the completion such valuations. Such changes could be material.

Beginning July 1, 2011, HollyFrontier s consolidated financial and operating results reflect the operations of the merged Frontier businesses. Our Consolidated Statements of Income include revenues and income before income taxes of $2.2 billion and $397.6 million, respectively, for the period from July 1, 2011 through September 30, 2011 that are attributable to the operations of the legacy Frontier refineries.

Assuming the merger had been consummated on January 1, 2010, the beginning of the earliest period presented, pro forma revenues, net income and basic and diluted earnings per share (except in the case of the three months ended September 30, 2011 which represent actual results) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Sales and other revenues	$ 5,173,398	$ 3,507,460	$ 14,446,297	$ 10,348,634
Net income attributable to HollyFrontier stockholders	$ 523,088	$ 66,792	$ 1,129,775	$ 142,499
Basic earnings per share	$ 2.50	$ 0.32	$ 5.39	$ 0.68
Diluted earnings per share	$ 2.48	$ 0.32	$ 5.37	$ 0.68

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The pro forma financial information above reflects our preliminary fair value estimates of the acquired Frontier assets and liabilities. Adjustments made to derive pro forma net income primarily relate to depreciation and amortization expense in order to reflect our new basis in the acquired legacy Frontier refining facilities.

As of September 30, 2011, we have recognized $15.1 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 February 2011. This does not include costs to integrate the operations of the combined company. For the three and nine months ended September 30, 2011, general and administrative expenses include $154 million in integration and severance costs associated with the integration of both companies.

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 September 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 though 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 77% of HEP s total revenues for the nine months ended September 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 made 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.

2011 Pending Pipeline and Tankage Asset Transaction

We have announced an agreement in principle with HEP, subject to the execution of definitive agreements and certain closing conditions, for the sale of certain pipeline, tankage, loading rack and crude receiving assets located at our El Dorado and Cheyenne Refineries to HEP for $340 million that we expect to close in November 2011. The purchase price is expected to be paid in HEP promissory notes with an aggregate original principal amount of $150 million and in an additional number of HEP s common units having a value equal to the remaining $190 million purchase price.

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In connection with the proposed transaction, we intend to enter into 15-year throughput agreements with HEP containing minimum annual revenue commitments that we project will result in $47 million of minimum annual payments to HEP.

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 sold to HEP in 2009 and 2010 and HEP s Tulsa interconnect pipelines);
- 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 September 30, 2011, these agreements result in minimum annualized payments to HEP of $145 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.

The carrying amounts and related estimated fair values of our debt instruments at September 30, 2011 and December 31, 2010 were as follows:

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	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
HollyFrontier senior notes	$ 659,850	$ 684,829	$ 289,509	$ 327,000
HEP senior notes	$ 325,213	$ 337,938	$ 323,271	$ 339,900

These fair value estimates are based on market quotes (a Level 1 input) provided from a third-party bank. The fair value of the HEP credit agreement approximates its carrying value as interest rates are reset frequently using current interest rates. See Note 10 for additional information on these instruments.

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 average number of shares of common stock and per share amounts have been adjusted to reflect the two-for-one stock split effective August 31, 2011. The following is a reconciliation of the denominators of the basic and diluted per share computations for net income attributable to HollyFrontier stockholders:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Earnings attributable to HollyFrontier stockholders	$ 523,088	$ 51,177	$ 800,017	$ 89,245
Average number of shares of common stock outstanding	209,583	106,420	141,353	106,344
Effect of dilutive stock options, variable restricted shares and performance share units (1)	996	714	739	718
Average number of shares of common stock outstanding assuming dilution	210,579	107,134	142,092	107,062
Basic earnings per share	$ 2.50	$ 0.48	$ 5.66	$ 0.84
Diluted earnings per share	$ 2.48	$ 0.48	$ 5.63	$ 0.83
(1) Excludes anti-dilutive restricted and performance share units of:	39		179	

NOTE 6: Stock-Based Compensation

In addition to our existing share-based compensation plan, we have retained the legacy Frontier share-based compensation plan (collectively, the Long-Term Incentive Compensation Plan). Upon our July 1 merger, outstanding and unvested restricted stock and performance share grants under the legacy Frontier plan were converted into equivalent HollyFrontier units based on the July 1, 2011 common stock conversion ratio of .4811. A portion of the fair value of these awards (based on our July 1, 2011 closing stock price of $35.93) relative to the remaining vesting period of the awards will be expensed over the remaining terms of these grants.

The compensation cost that has been charged against income for these plans was $9.4 million and $2.1 million for the three months ended September 30, 2011 and 2010, respectively, and $13.9 million and $6.2 million for the nine months ended September 30, 2011 and 2010, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $3.6 million and $0.8 million for the three months ended September 30, 2011 and 2010, respectively, and $5.4 million and $2.4 million for the nine months ended September 30, 2011 and 2010, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs 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 $0.6 million and $0.4 million for the three months ended September 30, 2011 and 2010, respectively, and $1.6 million and $1.8 million for the nine months ended September 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.

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A summary of restricted stock activity and changes during the nine months ended September 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)	693,992	$ 14.65	
Granted [1]	1,034,738	29.54	
Vesting and transfer of ownership to recipients	(510,730)	17.25	
Forfeited	(26,934)	26.08	
Outstanding at September 30, 2011 (non-vested)	1,191,066	$ 26.22	$ 31,226

(1) Includes 480,876 non-vested performance share grants under the legacy Frontier plan that were outstanding and retained by HollyFrontier at July 1, 2011.

The total fair value of restricted stock vested and transferred to recipients during the nine months ended September 30, 2011 and 2010 was $8.8 million and $4.2 million, respectively. As of September 30, 2011, there was $22.8 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 1.6 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 September 30, 2011, estimated share payouts for outstanding non-vested performance share unit awards ranged from 125% to 185%.

For the legacy Frontier performance share units assumed at July 1, 2011, performance is based on market performance criteria. These share unit awards are payable in stock based on share price performance relative to our peer group over a specified period and can range from zero to 125%.

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

Performance Share Units	Grants
Outstanding at January 1, 2011 (non-vested)	556,186
Granted [1]	409,982
Vesting and transfer of ownership to recipients	(178,154)
Outstanding at September 30, 2011 (non-vested)	788,014

(1) Includes 280,438 non-vested performance share grants under the legacy Frontier plan that were outstanding and retained by HollyFrontier at July 1, 2011.

For the nine months ended September 30, 2011, we issued 237,802 shares of our common stock having a fair value of $4.8 million related to vested performance share units. Based on the weighted average grant date fair value of $20.90, there was $15.4 million of total unrecognized compensation cost related to non-vested performance share units. That cost is expected to be recognized over a weighted-average period of 1.4 years.

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

Our investment portfolio at September 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.

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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 generally 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 reported as a component of accumulated other comprehensive income. Upon sale, realized gains and losses on the sale of marketable securities are computed based on the specific identification of the underlying cost of the securities sold and the unrealized gains and losses previously reported in other comprehensive income are reclassified to current earnings.

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

	Available-for-Sale Securities		
	Amortized Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value (Net Carrying Amount)
		(In thousands)	
September 30, 2011			
Marketable debt securities (state and political subdivisions)	$ 176,124	$ 47	$ 176,171
Equity securities	610	(287)	323
Total marketable securities	$ 176,734	$ (240)	$ 176,494
December 31, 2010			
Equity securities	$ 610	$ 733	$ 1,343

For the nine months ended September 30, 2011, we invested $370 million in marketable debt securities and received a total of $194.4 million from sales and maturities of marketable debt securities.

NOTE 8: Inventories

Inventory consists of the following components:

	September 30, 2011	December 31, 2010
	(In thousands)	
Crude oil	$ 403,128	$ 96,570
Other raw materials and unfinished products[1]	174,009	68,792
Finished products[2]	590,992	188,274
Process chemicals[3]	42,029	22,512
Repairs and maintenance supplies and other	55,361	24,219
Total inventory	$ 1,265,519	$ 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 $0.7 million and $1.5 million for the three months ended September 30, 2011 and 2010, respectively, and $0.6 million and $1.5 million for the nine months ended September 30, 2011 and 2010, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $30.3 million and $26.2 million at September 30, 2011 and December 31, 2010, respectively, of which $22.1 million and $20.4

million, respectively, were classified as other long-term liabilities. These amounts include $7.3 million in environmental liabilities we assumed upon our merger with Frontier of which $4.9 million is classified as other long-term liabilities at September 30, 2011. This includes estimated costs of future expenditures for environmental remediation that are expected to be incurred over the next several years that 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 $400 million credit agreement. Additionally, Frontier terminated its previous $500 million credit agreement. The HollyFrontier Credit Agreement matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries.

We were in compliance with all covenants at September 30, 2011. At September 30, 2011 we had no outstanding borrowings and outstanding letters of credit totaled $160.6 million under the HollyFrontier Credit Agreement. At that level of usage, the unused commitment was $839.4 million at September 30, 2011.

Indebtedness under the HollyFrontier Credit Agreement bears interest, at our option, at either (a) the reference rate as announced by the administrative agent plus an applicable margin (ranging from 0.50% to 1.50%) or (b) at a rate equal to LIBOR plus an applicable margin (ranging from 1.50% to 2.50%). We incur a commitment fee on the unused portion of the HollyFrontier Credit Agreement at a rate ranging from 0.375% to 0.50% based upon the credit ratings of our long-term, unsecured, senior debt. At September 30, 2011, we are subject to a 0.375% commitment fee on the $839.4 million unused portion of the credit agreement.

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), extended the expiration date and slightly reduced 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. At September 30, 2011, HEP had outstanding borrowings totaling $202 million under the HEP Credit Agreement, with unused borrowing capacity of $73 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 material, wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P. s assets, which other than its investment in HEP, are not significant. HEP s creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Senior Notes

Our senior notes consist of the following:

9.875% Senior Notes ($300 million principal amount maturing June 2017)

6.875% Senior Notes ($150 million principal amount maturing November 2018)[1]

8.5% Senior Notes ($200 million principal amount maturing September 2016)[1]

(1) Represent senior notes assumed upon our July 1, 2011 merger with Frontier.

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

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.

HEP Senior Notes

HEP s senior notes consist of the following:

6.25% Senior Notes ($185 million principal amount maturing March 2015)

8.25% Senior Notes ($150 million principal amount maturing March 2018)

These 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.

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

	September 30, 2011	December 31, 2010
	(In thousands)	
9.875% Senior Notes		
Principal	$ 300,000	$ 300,000
Unamortized discount	(9,619)	(10,491)
	290,381	289,509
6.875% Senior Notes		
Principal	150,000	
Unamortized premium	6,792	
	156,792	
8.5% Senior Notes		
Principal	199,985	
Unamortized premium	12,692	
	212,677	