

HOLLY CORP  
Form 10-Q  
November 06, 2009

**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 September 30, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-3876**

**HOLLY CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

75-1056913

(State or other jurisdiction of  
incorporation or organization)

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

100 Crescent Court, Suite 1600  
Dallas, Texas

75201-6915

(Address of principal executive offices)

(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

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

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**HOLLY CORPORATION  
INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Forward-Looking Statements</u>	3
<u>Definitions</u>	4
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets September 30, 2009 (Unaudited) and December 31, 2008</u>	6
<u>Consolidated Statements of Income (Unaudited) Three and Nine Months Ended September 30, 2009 and 2008</u>	7
<u>Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended September 30, 2009 and 2008</u>	8
<u>Consolidated Statements of Comprehensive Income (Unaudited) Three and Nine Months Ended September 30, 2009 and 2008</u>	9
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	52
<u>Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles</u>	52
<u>Item 4. Controls and Procedures</u>	59
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	60
<u>Item 6. Exhibits</u>	63
<u>Signatures</u>	64
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

**FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

- the possibility of constraints on the transportation of refined products;

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

- effects of governmental and environmental regulations and policies;

- the availability and cost of our financing;

- the effectiveness of our capital investments and marketing strategies;

- our efficiency in carrying out construction projects;

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

- our ability to successfully complete the pending acquisition of the Sinclair refinery and to integrate the operations of the Tulsa refinery and the Sinclair refinery into a single facility and into our business;

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

- general economic conditions; and

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

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

-3-

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**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).

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

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

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

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

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

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

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

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

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

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

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

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

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

**LPG** means liquid petroleum gases.

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

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

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

**Table of Contents**

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

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

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

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

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

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

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

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

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



Table of ContentsItem 1. Financial Statements

**HOLLY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

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

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

See accompanying notes.

Table of Contents

**HOLLY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except per share data)

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

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

-7-

**Table of Contents**

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

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

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

-8-

Table of Contents

**HOLLY CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)  
(In thousands)

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

See accompanying notes.

**Table of Contents**

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

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

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

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

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

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

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

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

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

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

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



**Table of Contents**

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

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

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

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

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

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

Our investments in marketable securities are measured at fair value using quoted market prices, a Level 1 input. See Note 6 for additional information on our investments in marketable securities, including fair value measurements. HEP has interest rate swaps that are measured at fair value on a recurring basis using Level 2 inputs. With respect to these instruments, fair value is based on the net present value of expected future cash flows related to both variable and fixed rate legs of our interest rate swap agreements. The measurements are computed using the forward London Interbank Offered Rate ( LIBOR ) yield curve, a market-based observable input. See Note 9 for additional information on the interest rate swaps, including fair value measurements.

***New Accounting Pronouncements******Accounting Standards Codification***

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

***Subsequent Events***

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

***Interim Disclosures about Fair Value of Financial Instruments***

In April 2009, the FASB issued accounting standards under ASC Topic Financial Instruments (previously FASB Staff Position ( FSP ) SFAS No. 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1) which extend

**Table of Contents**

the annual financial statement disclosure requirements for financial instruments to interim reporting periods of publicly traded companies. We adopted these standards effective June 30, 2009.

*Noncontrolling Interests in Consolidated Financial Statements*

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

*Disclosures about Derivative Instruments and Hedging Activities*

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

*Variable Interest Entities*

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

**NOTE 2: Tulsa Refinery Acquisition**

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

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

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



**Table of Contents**

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

**NOTE 3: Holly Energy Partners**

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

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

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

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

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

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

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



**Table of Contents**

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

Under these agreements, we agreed to transport and store volumes of refined product and crude oil on HEP's pipelines and terminal and tankage facilities that result in minimum annual payments to HEP. These minimum annual payments are adjusted each year at a percentage change based upon the change in the producer price index (PPI) but will not decrease as a result of a decrease in the PPI. Under these agreements, the agreed upon tariff rates are adjusted each year on July 1 at a rate based upon the percentage change in the PPI or the Federal Energy Regulatory Commission (FERC) index, but with the exception of the Holly IPA, generally will not decrease as a result of a decrease in the PPI or FERC index. The FERC index is the change in the PPI plus a FERC adjustment factor that is reviewed periodically. The balance sheet impact of our reconsolidation of HEP on March 1, 2008 was an increase in cash of \$7.3 million, an increase in other current assets of \$5.9 million, an increase in properties, plants and equipment of \$336.9 million, an increase in goodwill, intangibles and other assets of \$81.5 million, an increase in current liabilities of \$19.6 million, an increase in long-term debt of \$338.5 million, a decrease in other long-term liabilities of \$0.5 million, an increase in noncontrolling interest of \$389.1 million and a decrease in distributions in excess of investment in HEP of \$315.1 million.

**NOTE 4: Earnings Per Share**

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

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

**NOTE 5: Stock-Based Compensation**

***Holly Corporation***

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

-14-

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**Table of Contents**

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

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

**Stock Options**

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

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

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

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

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

**Restricted Stock**

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



**Table of Contents**

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

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

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

**Performance Share Units**

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

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

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

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

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

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

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

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

-16-

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**Table of Contents**

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

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

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

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

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

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

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

**NOTE 7: Inventories**

Inventory consists of the following components:

	September 30, 2009	December 31, 2008
Crude oil	\$ 52,730	\$ 22,897

(In thousands)

Other raw materials and unfinished products <sup>(1)</sup>	35,135	12,286
Finished products <sup>(2)</sup>	183,540	72,628
Process chemicals <sup>(3)</sup>	8,778	3,800
Repairs and maintenance supplies and other	18,099	14,124
	\$ 298,282	\$ 125,735

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

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

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

**Table of Contents**

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

**NOTE 8: Environmental**

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

**NOTE 9: Debt*****Credit Facilities***

In April 2009, we entered into a second amended and restated \$300 million senior secured revolving credit agreement (the Holly Credit Agreement ) that amends and restates our previous credit agreement in its entirety with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. The credit agreement expires in March 2013 and may be used to fund working capital requirements, capital expenditures, permitted acquisitions or other general corporate purposes. We were in compliance with all covenants at September 30, 2009. At September 30, 2009, we had no outstanding borrowings and letters of credit totaling \$46.8 million under the Holly Credit Agreement. At that level of usage, the unused commitment under the Holly Credit Agreement was \$253.2 million at September 30, 2009. HEP has a \$300 million senior secured revolving credit agreement expiring in August 2011 (the HEP Credit Agreement ). The HEP Credit Agreement is available to fund capital expenditures, acquisitions and working capital and for other general partnership purposes. At September 30, 2009, HEP had outstanding borrowings totaling \$245 million under the HEP Credit Agreement, with unused borrowing capacity of \$55 million. HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets. HEP assets that are included in our Consolidated Balance Sheets at September 30, 2009 consist of \$4.1 million in cash and cash equivalents, \$6 million in trade accounts receivable and other current assets, \$398.8 million in properties, plants and equipment, net and \$106.9 million in intangible and other assets. Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. Navajo Pipeline Co., L.P., Navajo Refining Company, L.L.C. and Woods Cross Refining Company, L.L.C., three of our subsidiaries, have agreed to indemnify HEP's controlling partner to the extent it makes any payment in satisfaction of debt service due on up to a \$171 million aggregate principal amount of borrowings under the HEP Credit Agreement.

***Holly Senior Notes Due 2017***

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

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

**Table of Contents****HEP Senior Notes Due 2015**

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

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

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

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

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

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

***Interest Rate Risk Management***

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

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

-19-

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**Table of Contents**

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

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

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

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

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

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

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

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



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

(1) Represents prior year charges to interest expense.

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

**Table of Contents****NOTE 10: Equity**

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

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

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

**NOTE 11: Other Comprehensive Income**

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

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

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

-21-

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**Table of Contents**

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

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

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

**NOTE 12: Retirement Plan**

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

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

The net periodic pension expense consisted of the following components:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(In thousands)			
Service cost	\$ 1,158	\$ 992	\$ 3,236	\$ 3,172
Interest cost	1,287	1,132	3,707	3,518

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

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

**NOTE 13: Contingencies**

In May 2007, the United States Court of Appeals for the District of Columbia Circuit ( Court of Appeals ) issued its decision on petitions for review, brought by us and other parties, concerning rulings by the FERC in proceedings brought by us and other parties against SFPP, L.P. ( SFPP ). These proceedings relate to tariffs of common carrier

-22-

**Table of Contents**

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

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

On June 2, 2009, SFPP notified us that it would terminate the October 2008 settlement, as provided under the settlement, effective August 31, 2009. On July 31, 2009, SFPP filed substantial rate increases for East Line service to become effective September 1, 2009. We and several other shippers filed protests at the FERC challenging the rate increase and asking the FERC to suspend the effectiveness of the increased rates. On August 31, 2009, FERC issued an order suspending the effective date of the rate increase until January 1, 2010 and setting the rate increase for a full evidentiary hearing to be held in 2010. We are not in a position to predict the ultimate outcome of the rate proceeding. We are a party to various other litigation and proceedings which we believe, based on advice of counsel, will not either individually or in the aggregate have a materially adverse impact on our financial condition, results of operations or cash flows.

**NOTE 14: Segment Information**

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

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

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

**Table of Contents**

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

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

- (1) The Refining segment reflects the operations of our Tulsa Refinery beginning June 1, 2009, our date of acquisition.
  
- (2) HEP segment revenues from external customers were \$14.5 million and \$7.9 million for the three months ended September 30, 2009 and 2008, respectively and \$44 million and \$16.8 million for the nine months ended September 30, 2009 and 2008, respectively.



**Table of Contents**

	<b>Refining</b>	<b>HEP</b>	<b>Corporate and Other (In thousands)</b>	<b>Consolidations and Eliminations</b>	<b>Consolidated Total</b>
<b>September 30, 2009</b>					
Cash, cash equivalents and investments in marketable securities	\$	\$ 4,050	\$ 95,503	\$	\$ 99,553
Total assets	\$ 1,879,753	\$ 538,538	\$ 307,237	\$ (27,430)	\$ 2,698,098

**December 31, 2008**

Cash, cash equivalents and investments in marketable securities	\$	\$ 5,269	\$ 90,739	\$	\$ 96,008
Total assets	\$ 1,288,211	\$ 458,049	\$ 141,768	\$ (13,803)	\$ 1,874,225

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

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

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

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

**Table of Contents****Condensed Consolidating Balance Sheet**

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

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

**Condensed Consolidating Balance Sheet**

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

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Total assets \$ 625,211 \$ 2,688,665 \$ 78,677 \$ (1,962,574) \$ 1,429,979 \$ 458,049 \$ (13,803) \$ 1,874,225

**LIABILITIES  
AND EQUITY**

Current liabilities:

Accounts payable \$ 9,269 \$ 384,285 \$ 1,021 \$ 394,575 \$ 8,018 \$ (11,451) \$ 391,142

Accrued liabilities 15,086 8,118 11 23,215 21,153 (2,352) 42,016

Other liabilities (8,130) 8,130

Short-term debt 29,000 29,000

Total current

liabilities 16,225 400,533 1,032 417,790 58,171 (13,803) 462,158

Long-term debt

Non-current 341,914 341,914

liabilities 41,693 5,033 46,726 17,604 64,330

Deferred income 24,894 44,597 69,491 69,491

taxes 24,894 44,597 69,491 69,491

Distributions in

excess of inv in 326,889 326,889 (326,889)

HEP 326,889 326,889 (326,889)

Equity Holly 542,399 1,911,613 77,645 (1,989,258) 542,399 30,142 (31,001) 541,540

Corporation 542,399 1,911,613 77,645 (1,989,258) 542,399 30,142 (31,001) 541,540

Equity 26,684 26,684 10,218 357,890 394,792

Noncontrolling 26,684 26,684 10,218 357,890 394,792

interest 26,684 26,684 10,218 357,890 394,792

Total liabilities and

equity \$ 625,211 \$ 2,688,665 \$ 78,677 \$ (1,962,574) \$ 1,429,979 \$ 458,049 \$ (13,803) \$ 1,874,225



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

**Condensed Consolidating Statement of Income**

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

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

-27-

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

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



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

**Condensed Consolidating Statement of Income**

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

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

-28-

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

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

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

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

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

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

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

#### **Note 16: Subsequent Events**

##### ***Holly Corporation***

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

In conjunction with this transaction, we expect to enter into a long-term agreement with HEP for certain storage, loading, delivery and receiving services associated with HEP's new logistics and storage assets discussed below. On October 20, 2009, we also announced the sale to Plains All American Pipeline, LP (Plains) of a portion of our crude oil storage tanks having an approximate storage capacity of 400,000 barrels and certain crude oil pipeline receiving facilities at our Tulsa Refinery for \$40 million in cash. In connection with this transaction, we have entered into a 15-year lease agreement with Plains for use of these assets.



**Table of Contents**

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

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

***HEP***

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

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

On November 6, 2009, HEP closed on a public offering of 2,185,000 of its common units priced at \$35.78 per unit, including 285,000 common units issued pursuant to the underwriters' exercise of their over-allotment option.

Aggregate net proceeds of \$76.5 million, including our \$1.5 million capital contribution to HEP in order to maintain our 2% general partner interest, will be used to fund the cash portion of HEP's pending asset acquisition from Sinclair, for other potential acquisitions including our current pipeline projects, to repay outstanding debt under the HEP Credit Agreement and / or for general partnership purposes.



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

**OVERVIEW**

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

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

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

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

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

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

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

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Cash dividends declared per common share	\$	0.15	\$	0.15	\$	%
Average number of common shares outstanding:						
Basic		50,244		49,717		527 1.1%
Diluted		50,327		50,032		295 0.6%
		-33-				

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**Table of Contents**

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

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

**Balance Sheet Data (Unaudited)**

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

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

our Consolidated Statements of Income. Prior to our adoption of these standards, this amount was presented as

Minority interest in earnings of HEP, a non-operating expense item before Income before income taxes.

Additionally, equity attributable to noncontrolling interests is now presented as a separate component of total equity in our consolidated financial statements. We have adopted these standards on a retrospective basis. While this presentation differs from previous requirements under generally accepted accounting principles in the United States ( GAAP ), it did not affect our net income and equity attributable to Holly Corporation stockholders.



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

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

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



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

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

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

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

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

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

and northern  
Mexico.

**Table of Contents**

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

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

#### Refining Operating Data (Unaudited)

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

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

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

**Table of Contents**

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



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Average per produced barrel <sup>(5)</sup>				
Net sales	\$ 76.80	\$	\$ 76.65	\$
Cost of products <sup>(6)</sup>	70.10		70.80	
Refinery gross margin	6.70		5.85	
Refinery operating expenses <sup>(7)</sup>	4.64		4.76	
Net operating margin	\$ 2.06	\$	\$ 1.09	\$
Feedstocks:				
Sour crude oil	%	%	%	%
Sweet crude oil	100%	%	100%	%
Other feedstocks and blends	%	%	%	%
Total	100%	%	100%	%
Sales of produced refined products:				
Gasolines	23%	%	23%	%
Diesel fuels	30%	%	30%	%
Jet fuels	11%	%	11%	%
Lubricants	18%	%	18%	%
Gas oil / intermediates	16%	%	16%	%
LPG and other	2%	%	2%	%
Total	100%	%	100%	%

-37-

**Table of Contents**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Consolidated</b>				
Crude charge (BPD) <sup>(1)</sup>	179,350	93,010	130,640	99,290
Refinery production (BPD) <sup>(2)</sup>	185,480	103,790	138,190	108,110
Sales of produced refined products (BPD)	181,690	106,170	137,240	109,720
Sales of refined products (BPD) <sup>(3)</sup>	184,570	113,210	141,890	119,760
Refinery utilization <sup>(4)</sup>	83.0%	83.8%	80.5%	89.5%
Average per produced barrel <sup>(5)</sup>				
Net sales	\$ 78.11	\$ 135.45	\$ 70.16	\$ 123.25
Cost of products <sup>(6)</sup>	69.84	120.28	61.26	112.68
Refinery gross margin	8.27	15.17	8.90	10.57
Refinery operating expenses <sup>(7)</sup>	4.77	5.55	5.17	5.49
Net operating margin	\$ 3.50	\$ 9.62	\$ 3.73	\$ 5.08
Feedstocks:				
Sour crude oil	44%	64%	52%	63%
Sweet crude oil	47%	21%	36%	23%
Black wax crude oil	4%	3%	5%	4%
Other feedstocks and blends	5%	12%	7%	10%
Total	100%	100%	100%	100%
Sales of produced refined products:				
Gasolines	45%	57%	52%	58%
Diesel fuels	32%	34%	31%	32%
Jet fuels	6%	1%	3%	1%
Fuel oil	2%	3%	3%	3%
Asphalt	2%	3%	2%	3%
Lubricants	6%	%	4%	%
Gas oil / intermediates	5%	%	3%	%
LPG and other	2%	2%	2%	3%
Total	100%	100%	100%	100%

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

refineries.

- (2) 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.
- (3) Includes refined products purchased for resale.
- (4) Represents crude charge divided by total crude capacity (BPSD). Our consolidated crude capacity was increased by 5,000 BPSD effective January 1, 2009 (our Woods Cross Refinery expansion), 15,000 BPSD effective April 1, 2009 (our Navajo Refinery expansion) and 85,000 BPSD effective June 1, 2009 (our Tulsa Refinery acquisition), increasing our consolidated crude capacity

to 216,000  
BPSD.

- (5) 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.
- (6) Transportation costs billed from HEP are included in cost of products.
- (7) Represents operating expenses of our refineries, exclusive of depreciation and amortization.
- (8) There was a scheduled major maintenance turnaround at the Woods Cross refinery during the 2008 third quarter.

- (9) The amounts reported for the Tulsa Refinery for the nine months ended September 30, 2009 include crude oil processed and products yielded from the refinery for the period from June 1, 2009 through September 30, 2009 only, and averaged over the 273 days for the nine months ended. Operating data for the period from June 1, 2009 through September 30, 2009 is as follows:

***Tulsa Refinery***

Crude charge (BPD)	63,330
Refinery production (BPD)	61,310
Sales of produced refined products (BPD)	58,360
Sales of refined products (BPD)	58,740

-38-

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**Table of Contents****Results of Operations Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008*****Summary***

Net income attributable to Holly Corporation stockholders for the three months ended September 30, 2009 was \$23.5 million (\$0.47 per basic and diluted share), a \$26.4 million decrease compared to \$49.9 million (\$1.00 per basic and diluted share) for the three months ended September 30, 2008. Net income decreased due to an overall decrease in refinery gross margins, partially offset by the effects of increased refining production. Overall refinery gross margins for the three months ended September 30, 2009 were \$8.27 per produced barrel compared to \$15.17 for the three months ended September 30, 2008.

Overall production levels for the three months ended September 30, 2009 increased by 79% over the same period of 2008 due to production attributable to the operations of our newly acquired Tulsa Refinery and production gains resulting from our recent Navajo and Woods Cross Refinery capacity expansions. Also impacting this production increase was the effects of scheduled downtime for the major maintenance turnaround at our Woods Cross Refinery during the third quarter of 2008.

***Sales and Other Revenues***

Sales and other revenues decreased 13% from \$1,719.9 million for the three months ended September 30, 2008 to \$1,490.4 million for the three months ended September 30, 2009, due principally to the effects of an overall decline in year-over-year third quarter sales prices of produced refined products sold, partially offset by a 63% increase in volumes of refined products sold. The average sales price we received per produced barrel sold decreased 42% from \$135.45 for the three months ended September 30, 2008 to \$78.11 for the three months ended September 30, 2009. Additionally, direct sales of excess crude oil also decreased in the current year. Sales and other revenues for the three months ended September 30, 2009 and 2008, includes \$14.5 million and \$7.9 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

***Cost of Products Sold***

Cost of products sold decreased 16% from \$1,534.8 million for the three months ended September 30, 2008 to \$1,295.4 million for the three months ended September 30, 2009, due principally to significantly lower crude oil costs, partially offset by a 63% increase in volumes of refined products sold. The average price we paid per produced barrel sold for crude oil and feedstocks and the transportation costs of moving the finished products to the market place decreased 42% from \$120.28 for the three months ended September 30, 2008 to \$69.84 for the three months ended September 30, 2009.

***Gross Refinery Margins***

Gross refining margin per produced barrel decreased 45% from \$15.17 for the three months ended September 30, 2008 to \$8.27 for the three months ended September 30, 2009 due to the effects of a decrease in the average sales price we received per produced barrel sold, partially offset a decrease in the average price we paid per barrel of 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 37% from \$71.1 million for the three months ended September 30, 2008 to \$97.1 million for the three months ended September 30, 2009, due principally to the inclusion of costs attributable to the operations of our Tulsa Refinery commencing June 1, 2009, partially offset by lower utility costs.

***General and Administrative Expenses***

General and administrative expenses increased 17% from \$14.3 million for the three months ended September 30, 2008 to \$16.7 million for the three months ended September 30, 2009, due principally to costs associated with the support and integration of our Tulsa Refinery, increased payroll costs and increased professional fees and services.

**Table of Contents*****Depreciation and Amortization Expenses***

Depreciation and amortization increased 45% from \$16.7 million for the three months ended September 30, 2008 to \$24.3 million for the three months ended September 30, 2009. The increase was due principally to depreciation and amortization attributable to our Tulsa Refinery and capitalized refinery improvement projects in 2008 and early 2009.

***Interest Expense***

Interest expense was \$12.4 million for the three months ended September 30, 2009 compared to \$7.4 million for the three months ended September 30, 2008. The increase was due principally to interest attributable to increased long-term debt, including the Holly Senior Notes. For the three months ended September 30, 2009 and 2008, interest expense included \$6.6 million and \$5.6 million, respectively, in costs attributable to HEP operations. Additionally, fair value adjustments to HEP's interest rate swaps resulted in a \$0.9 million non-cash increase in interest expense for the three months ended September 30, 2009.

***Income Taxes***

Income taxes for the three months ended September 30, 2009 were \$13.7 million compared to \$25.8 million for the three months ended September 30, 2008. Our effective tax rate, before consideration of earnings attributable to noncontrolling interest, was 30.4% and 33.2% for the three months ended September 30, 2009 and 2008, respectively.

**Results of Operations    Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008*****Summary***

Net income attributable to Holly Corporation stockholders for the nine months ended September 30, 2009 was \$60 million (\$1.20 per basic and \$1.19 per diluted share), a \$10 million decrease compared to \$70 million (\$1.39 per basic and \$1.38 per diluted share) for the nine months ended September 30, 2008. Net income decreased due principally to lower year-over-year refined product margins, partially offset by the effects of an increase in year-to-date production levels. Overall refinery gross margins for the nine months ended September 30, 2009 were \$8.90 per produced barrel compared to \$10.57 for the nine months ended September 30, 2008.

Overall production levels for the nine months ended September 30, 2009 increased by 28% due principally to the effects of production attributable to our Tulsa Refinery operations and production gains resulting from our recent Navajo and Woods Cross Refinery capacity expansions. Also impacting production levels was scheduled downtime for major maintenance turnarounds at the Navajo Refinery in the first quarter of 2009 and the Woods Cross Refinery in the third quarter of 2008. During the first quarter of 2009, we timed our Navajo Refinery turnaround to coincide with the completion of its 15,000 BPSD capacity expansion, increasing refining capacity to 100,000 BPSD.

***Sales and Other Revenues***

Sales and other revenues decreased 36% from \$4,943.7 million for the nine months ended September 30, 2008 to \$3,179.6 million for the nine months ended September 30, 2009, due principally to significantly lower refined product sales prices, partially offset by the effects of an 18% increase in volumes of refined products sold. The average sales price we received per produced barrel sold decreased 43% from \$123.25 for the nine months ended September 30, 2008 to \$70.16 for the nine months ended September 30, 2009. Additionally, direct sales of excess crude oil also decreased in the current year. Sales and other revenues for the nine months ended September 30, 2009 and 2008, includes \$44 million and \$16.8 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

***Cost of Products Sold***

Cost of products sold decreased 41% from \$4,538.8 million for the nine months ended September 30, 2008 to \$2,687 million for the nine months ended September 30, 2009, due principally to the effects of significantly lower crude oil costs, partially offset by the effects of an 18% increase in volumes of refined products sold. The average price we paid per produced barrel sold for crude oil and feedstocks and the transportation costs of moving the finished products to the market place decreased 46% from \$112.68 for the nine months ended September 30, 2008 to \$61.26 for the nine months ended September 30, 2009. Also during the nine months ended September 30, 2009, we

**Table of Contents**

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

***Gross Refinery Margins***

Gross refining margin per produced barrel decreased 16% from \$10.57 for the nine months ended September 30, 2008 to \$8.90 for the nine months ended September 30, 2009 due to a decrease in the average sales price we received per produced barrel sold, partially offset by the effects of a decrease in the average price we paid per barrel of 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 18% from \$206 million for the nine months ended September 30, 2008 to \$242.8 million for the nine months ended September 30, 2009, due principally to costs attributable to the operations of our Tulsa Refinery commencing June 1, 2009 and the inclusion of HEP operating expense for a full nine month period during the nine months ended September 30, 2009 compared to seven months in 2008 due to our reconsolidation of HEP effective March 1, 2008. These factors were partially offset by lower utility costs. For the nine months ended September 30, 2009 and 2008, operating expenses included \$32.9 million and \$24.7 million, respectively, in costs attributable to HEP operations.

***General and Administrative Expenses***

General and administrative expenses increased 9% from \$40.2 million for the nine months ended September 30, 2008 to \$43.6 million for the nine months ended September 30, 2009, due principally to costs associated with the support and integration of our Tulsa Refinery, increased payroll costs and increased professional fees and services. For the nine months ended September 30, 2009 and 2008, general and administrative expenses included \$3.3 million and \$2.3 million, respectively, in costs attributable to HEP operations.

***Depreciation and Amortization Expenses***

Depreciation and amortization increased 52% from \$46 million for the nine months ended September 30, 2008 to \$70.1 million for the nine months ended September 30, 2009. The increase was due principally to depreciation and amortization attributable to our Tulsa Refinery and capitalized refinery improvement projects in 2008 and early 2009, and the inclusion of HEP depreciation expense for a full nine month period during the nine months ended September 30, 2009 compared to seven months in 2008. For the nine months ended September 30, 2009 and 2008, depreciation and amortization expenses included \$18.7 million and \$14.3 million, respectively, in costs attributable to HEP operations.

***Equity in Earnings of HEP***

Effective March 1, 2008, we reconsolidated HEP and no longer account for our investment in HEP under the equity method of accounting. Equity in earnings of HEP for the nine months ended September 30, 2008 was \$3 million, representing our pro-rata share of earnings in HEP from January 1 through February 29, 2008.

***Interest Expense***

Interest expense was \$25.8 million for the nine months ended September 30, 2009 compared to \$15.6 million for the nine months ended September 30, 2008. The increase was due principally to interest attributable to increased long-term debt, including the Holly Senior Notes, and the inclusion of HEP interest expense for a full nine month period during the nine months ended September 30, 2009 compared to seven months in 2008. For the nine months ended September 30, 2009 and 2008, interest expense included \$17.5 million and \$13.3 million, respectively, in costs attributable to HEP operations. Additionally, fair value adjustments to HEP's interest rate swaps resulted in a \$0.3 million non-cash increase in interest expense for the nine months ended September 30, 2009.

***Income Taxes***

Income taxes for the nine months ended September 30, 2009 were \$35.4 million compared to \$36.3 million for the nine months ended September 30, 2008. Our effective tax rate, before consideration of earnings attributable to noncontrolling interest, was 31.5% and 33.2% for the nine months ended September 30, 2009 and 2008, respectively.





**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

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. As of September 30, 2009, we had cash and cash equivalents of \$98.5 million.

Cash and cash equivalents increased by \$57.7 million during the nine months ended September 30, 2009. Net cash provided by operating activities and financing activities of \$179.7 million and \$253 million, respectively, exceeded cash used for investing activities of \$374.9 million. Working capital increased by \$107.7 million during the nine months ended September 30, 2009.

In April 2009, we entered into a second amended and restated \$300 million senior secured revolving credit agreement (the Holly Credit Agreement ) that amends and restates our previous credit agreement in its entirety with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. The credit agreement expires in March 2013 and may be used to fund working capital requirements, capital expenditures, permitted acquisitions or other general corporate purposes. We were in compliance with all covenants at September 30, 2009. At September 30, 2009, we had no outstanding borrowings and letters of credit totaling \$46.8 million under the Holly Credit Agreement. At that level of usage, the unused commitment under the Holly Credit Agreement was \$253.2 million at September 30, 2009. On November 3, 2009 we upsized the Holly Credit Agreement to \$350 million under the accordion, to fund potential increases in our working capital needs as a result of the pending Sinclair acquisition. See planned capital expenditures for discussion of this pending transaction.

There are currently a total of twelve lenders under the Holly Credit Agreement with individual commitments ranging from \$15 million to \$46 million. If any particular lender could not honor its commitment, 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 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 has a \$300 million senior secured revolving credit agreement expiring in August 2011 (the HEP Credit Agreement ). The HEP Credit Agreement is available to fund capital expenditures, acquisitions and working capital and / or other general partnership purposes. At September 30, 2009, HEP had outstanding borrowings totaling \$245 million under the HEP Credit Agreement, with unused borrowing capacity of \$55 million. HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets. HEP assets that are included in our Consolidated Balance Sheets at September 30, 2009 consist of \$4.1 million in cash and cash equivalents, \$6 million in trade accounts receivable and other current assets, \$398.8 million in properties, plants and equipment, net and \$106.9 million in intangible and other assets. Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. Navajo Pipeline Co., L.P., Navajo Refining Company, L.L.C. and Woods Cross Refining Company, L.L.C., three of our subsidiaries, have agreed to indemnify HEP's controlling partner to the extent it makes any payment in satisfaction of debt service due on up to a \$171 million aggregate principal amount of borrowings under the HEP Credit Agreement.

There are currently a total of thirteen lenders under the HEP Credit Agreement with individual commitments ranging from \$15 million to \$40 million. If any particular lender could not honor its commitment, 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 has not experienced, nor do they 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.



**Table of Contents**

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

The \$300 million aggregate principal amount of Holly Senior Notes mature on June 15, 2017 and bear interest at 9.875%. The Holly Senior Notes are unsecured and impose certain restrictive covenants, including limitations on Holly's ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. At any time when the Holly Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the Holly Senior Notes.

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

In May 2009, HEP closed a public offering of 2,192,400 of its common units priced at \$27.80 per unit including 192,400 common units issued pursuant to the underwriters' exercise of their over-allotment option. Net proceeds of \$58.4 million were used to repay bank debt and for general partnership purposes.

On November 6, 2009, HEP closed on a public offering of an additional 2,185,000 of its common units priced at \$35.78 per unit, including 285,000 common units issued pursuant to the underwriters' exercise of their over-allotment option. Aggregate net proceeds of \$74.9 million will be used to fund the cash portion of HEP's pending asset acquisition from Sinclair, for other potential acquisitions including our current pipeline projects, to repay outstanding debt under the HEP Credit Agreement and / or for general partnership purposes.

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

Additionally, on October 20, 2009 we announced the sale to Plains All American Pipeline, LP (Plains) of a portion of our crude oil storage tanks having an approximate storage capacity of 400,000 barrels and certain crude oil pipeline receiving facilities at our Tulsa Refinery for \$40 million in cash.

We believe our current cash and cash equivalents, along with future internally generated cash flow, funds available under our credit facilities, proceeds received from HEP's equity offerings and proceeds received from HEP's planned sale of Rio Grande and from our recent sale of certain crude oil storage tanks to Plains will provide sufficient resources to fund currently planned capital projects, including our planned acquisition of Sinclair's Tulsa refinery and HEP's planned acquisition of certain related logistics and storage assets (see discussion under planned capital expenditures) and our planned integration of the Tulsa refineries, 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



**Table of Contents**

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.

**Cash Flows Operating Activities**

Net cash flows provided by operating activities were \$179.7 million for the nine months ended September 30, 2009 compared to \$160.7 million for the nine months ended September 30, 2008, an increase of \$19 million. Net income for the nine months ended September 30, 2009 was \$76.8 million, an increase of \$3.7 million compared to the nine months ended September 30, 2008. Non-cash adjustments consisting of depreciation and amortization, equity in earnings of SLC Pipeline, interest rate swap adjustments, deferred income taxes and equity-based compensation expense resulted in an increase to operating cash flows of \$101.3 million for the nine months ended September 30, 2009 compared to \$56.2 million for the same period in 2008. Additionally, distributions in excess of equity in earnings of HEP increased 2008 operating cash flows by \$3.1 million. Changes in working capital items increased cash flows by \$22.3 million for the nine months ended September 30, 2009 compared to \$65.7 million for the nine months ended September 30, 2008. Additionally, for the nine months ended September 30, 2009, turnaround expenditures increased to \$33.1 million from \$29.4 million in 2008 due to the planned major maintenance turnaround at our Navajo Refinery in the first quarter of 2009.

**Cash Flows Investing Activities and Planned Capital Expenditures**

Net cash flows used for investing activities were \$374.9 million for the nine months ended September 30, 2009 compared to net cash flows provided by investing activities of \$25.4 million for the nine months ended September 30, 2008, a change of \$400.4 million. Cash expenditures for properties, plants and equipment for the first nine months of 2009 decreased to \$246 million from \$291.4 million for the same period in 2008. These include HEP capital expenditures of \$27.5 million and \$21 million for the nine months ended September 30, 2009 and 2008, respectively. During the nine months ended September 30, 2009, we acquired the Tulsa Refinery for \$157.8 million and HEP purchased a 25% joint venture interest in the SLC Pipeline for \$25.5 million. Additionally we invested \$165.9 million in marketable securities and received proceeds of \$220.3 million from the sale or maturity of marketable securities. For the nine months ended September 30, 2008, we received \$171 million in proceeds from our sale of the Crude Pipelines and Tankage Assets to HEP. Also, as a result of our reconsolidation of HEP effective March 1, 2008, our investing activities reflect HEP's March 1, 2008 cash balance of \$7.3 million as a cash inflow. Additionally for the nine months ended September 30, 2008, we invested \$377.2 million in marketable securities and received proceeds of \$516.1 million from the sale or maturity of marketable securities.

***Planned Capital Expenditures******Holly Corporation***

On October 20, 2009, we announced a definitive agreement with Sinclair to purchase its 75,000 BPD refinery located in Tulsa, Oklahoma for \$128.5 million. The purchase price will consist of \$54.5 million in cash and \$74 million in our common stock. Additionally, we have agreed to purchase approximately 500,000 barrels of inventory at the closing of this transaction at market value. We expect to close on this transaction in December 2009.

In conjunction with this transaction, we expect to enter into a long-term agreement with HEP for certain storage, loading, delivery and receiving services associated with HEP's new logistics and storage assets discussed below. Once this transaction is closed, we plan to integrate and optimize the operations of this facility with our 85,000 BPSD Tulsa Refinery that was acquired from Sunoco on June 1, 2009 for \$65 million. This will result in a single refinery having an integrated crude processing rate of 125,000 BPD. We intend to expand the diesel hydrotreater unit at the Sinclair refinery complex to permit the processing of all the high sulfur diesel produced at the combined facilities, eliminating the need to construct a new diesel hydrotreater as previously planned. Using the reactor acquired in the acquisition from Sunoco, we estimate that the expansion of the diesel hydrotreater unit will cost approximately \$10 million. Additionally, we plan to invest an additional \$40 million to install sulfur recovery facilities and meet our consent decree requirements at our existing Tulsa complex.

**Table of Contents**

Each year our Board of Directors approves in our annual capital budget capital 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. Our total capital budget for 2009 is \$25.4 million, not including the capital projects approved in prior years, our expansion / feedstock flexibility projects at the Navajo and Woods Cross Refineries or the planned capital projects at the Tulsa refineries. The 2009 capital budget is comprised of \$11.4 million for refining improvement projects for the Navajo Refinery, \$5.3 million for projects at the Woods Cross Refinery, \$5.6 million for projects at the Tulsa Refinery, \$0.4 million for marketing-related projects, \$1.4 million for asphalt plant projects and \$1.3 million for other miscellaneous projects. At the Navajo Refinery, phase I of our major capital projects was mechanically completed in March 2009 increasing refinery capacity to 100,000 BPSD effective April 1, 2009. Phase I required the installation of a new 15,000 BPSD mild hydrocracker, 28 MMSCFSD hydrogen plant and the expansion of our Lovington crude and vacuum units at a cost of approximately \$190 million.

We are nearing completion of phase II of the major capital projects at the Navajo Refinery. These improvements will provide the capability to run up to 40,000 BPSD of heavy type crudes. Phase II involves the installation of a new 18,000 BPSD solvent deasphalter and the revamp of our Artesia crude and vacuum units. The rose unit is expected to be mechanically complete and in operation in the fourth quarter of 2009 and the crude / vacuum unit is expected to be completed in the first quarter of 2010. We expect the phase II project to cost approximately \$100 million.

We are also proceeding with a project to add asphalt tankage at the Navajo Refinery and at the Holly Asphalt facility in Artesia, New Mexico to enhance asphalt economics by storing asphalt during the winter months when asphalt demand and prices are generally lower. These asphalt tank additions and an approved upgrade of our rail loading facilities at the Artesia refinery are estimated to cost approximately \$21 million and are expected to be completed at the same time as the phase II project.

During the first quarter of 2009, the Navajo Refinery also completed the installation of a new 100 ton per day sulfur recovery unit at a cost of approximately \$31 million.

In July 2008, we announced an agreement by one of our subsidiaries to transport crude oil on Centurion Pipeline L.P.'s pipeline from Cushing, Oklahoma to its Slaughter Station in west Texas. Our Board of Directors has approved capital expenditures of up to \$97 million to build the necessary infrastructure including a 70-mile pipeline from Centurion's Slaughter Station to Lovington, New Mexico, and a 65-mile pipeline from Lovington to Artesia, New Mexico. It also includes our recently completed 37-mile pipeline project that connects HEP's Artesia gathering system to our Lovington facility. This permits the segregation of heavy crude oil for our crude / vacuum unit in Artesia and provide Artesia area crude oil producers additional access to markets. We sold the 65-mile Lovington to Artesia, New Mexico pipeline to HEP on June 1, 2009 for \$34.2 million. Under the provisions of the Omnibus Agreement with HEP, HEP will have an option to purchase the remaining transportation assets described above upon our completion of these projects. We expect the final 70-mile pipeline project discussed above to be completed and fully operational in November 2009.

The Navajo Refinery and pipeline projects discussed above will enable the Navajo Refinery to process 100,000 BPSD of crude with up to 40% of that crude being lower cost heavy crude oil and the remaining 60% being sour crude oil. The projects will also increase the yield of diesel, supply Holly Asphalt with all of its performance grade asphalt requirements, increase refinery liquid volume yield, increase the refinery's capacity to process outside feedstocks, and enable the refinery to meet new low sulfur gasoline specifications required by the U.S. Environmental Protection Agency (EPA).

At the Woods Cross Refinery, we have increased the refinery's capacity from 26,000 BPSD to 31,000 BPSD while increasing its ability to process lower cost crude. The project involved installing a new 15,000 BPSD mild hydrocracker, sulfur recovery facilities, black wax desalting equipment and black wax unloading systems. The total cost of this project was approximately \$122 million. The projects were mechanically complete in the fourth quarter





**Table of Contents**

of 2008. These improvements will also provide the necessary infrastructure for future expansions of crude capacity and enable the refinery to meet new low sulfur gasoline specifications as required by the EPA.

In December 2007, we entered into a definitive agreement with Sinclair Transportation Company to jointly build 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 and Sinclair will own the remaining 25% interest. The initial capacity of the pipeline will be 62,000 bpd, with the capacity for further expansion to 120,000 bpd. The total cost of the pipeline project including terminals is expected to be \$300 million, with our share of this cost totaling \$225 million. 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. We expect the project will be ready to commence operations in the fall of 2010.

In 2011, our refineries will have to comply with new Control of Hazardous Air Pollutants From Mobile Sources ( MSAT2 ) regulations issued by the EPA in order to meet new benzene reduction requirements. We are currently evaluating our compliance strategy and believe that we will need to invest an additional \$40 million in capital spending on our refineries in order to comply with new requirements.

In 2009, we expect to spend approximately \$285 million on approved capital projects, including sustaining capital and turnaround costs. This amount consists of certain carryovers of capital projects from previous years, less carryovers to subsequent years of certain of our approved capital projects.

In October 2004, the American Jobs Creation Act of 2004 ( 2004 Act ) was signed into law. Among other things, the 2004 Act creates tax incentives for small business refiners incurring costs to produce ULSD. The 2004 Act provided an immediate deduction of 75% of certain costs paid or incurred to comply with the ULSD standards, and a tax credit based on ULSD production of up to 25% of those costs. In August 2005, the Energy Policy Act of 2005 ( 2005 Act ) was signed into law. Among other things, the 2005 Act created tax incentives for refiners by providing for an immediate deduction of 50% of certain refinery capacity expansion costs when the expansion assets are placed in service. We believe the capacity expansion projects at the Navajo and Woods Cross Refineries qualify for this deduction.

Regulatory compliance items, such as the ULSD and LSG requirements mentioned above, 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**

On October 20, 2009, HEP, also a party to the agreement with Sinclair as discussed above, announced an agreement to purchase certain logistics and storage assets from Sinclair consisting of storage tanks having approximately 1.4 million barrels of storage capacity, loading racks and a refined product delivery pipeline at the Sinclair refinery. HEP's \$75 million purchase price will consist of \$21.5 million in cash and \$53.5 million in HEP common units. Each year the Holly Logistic Services, L.L.C. ( HLS ) board of directors approves HEP's annual capital budget, which specifies capital projects that HEP management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, HEP's planned capital expenditures for a given year consist of expenditures approved for capital projects included in its current year's capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2009 HEP capital budget is comprised of \$3.7 million for maintenance capital expenditures and \$2.2 million for expansion capital expenditures. Additionally, capital expenditures planned in 2009 include approximately \$43 million for capital projects approved in prior years, most of

**Table of Contents**

which relate to the expansion of HEP's pipeline between Artesia, New Mexico and El Paso, Texas (the South System) and the Plains joint venture discussed below.

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

On August 1, 2009, HEP acquired certain of our truck and rail loading facilities located at our Tulsa Refinery for \$17.5 million. In connection with this transaction, we entered into a 15-year equipment and throughput agreement with HEP that expires in 2024 for usage of the facilities to load or unload products via tanker truck and / or rail car. Since HEP is a consolidated subsidiary, these transactions including fees paid under our transportation agreements with HEP are eliminated and have no impact on our consolidated financial statements.

In March 2009, HEP acquired a 25% joint venture interest in a new 95-mile intrastate pipeline system, the SLC Pipeline, jointly owned by Plains All American Pipeline, L.P. (Plains) and HEP. The SLC Pipeline allows various refineries in the Salt Lake City area, including our Woods Cross Refinery, to ship up to 120,000 bpd of crude oil into the Salt Lake City area from the Utah terminus of the Frontier Pipeline as well as crude oil flowing from Wyoming and Utah via Plains' Rocky Mountain Pipeline. The total cost of HEP's investment in the SLC Pipeline was \$25.5 million.

In October 2007, we amended the HEP PTA under which HEP has agreed to expand the South System. The expansion of the South System includes replacing 85 miles of 8-inch pipe with 12-inch pipe, adding 150,000 barrels of refined product storage at HEP El Paso Terminal, improving existing pumps, adding a tie-in to the Kinder Morgan pipeline to Tucson and Phoenix, Arizona, and making related modifications. The cost of this project is estimated to be \$52 million. Construction of the South System pipe replacement and storage tankage is complete and improvements to Kinder Morgan's El Paso pump station are expected to be completed by December 2009.

HEP is currently working on a capital improvement project that will provide increased flexibility and capacity to its intermediate pipelines enabling it to accommodate increased volumes as a result of our recent capacity expansion at the Navajo Refinery. This project is expected to be completed in November 2009 at an estimated cost of \$7 million.

**Cash Flows Financing Activities**

Net cash flows provided by financing activities were \$253 million for the nine months ended September 30, 2009 compared to net cash used for financing activities of \$144.5 million for the nine months ended September 30, 2008, a change of \$397.5 million. During the nine months ended September 30, 2009, we received \$188 million in proceeds upon the issuance of the Holly Senior Notes, received and repaid \$94 million in advances under the Holly Credit Agreement, paid \$22.6 million in dividends, purchased \$1.2 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 \$13.7 million contribution from our UNEV Pipeline joint venture partner and recognized \$2.1 million in excess tax benefits on our equity based compensation. Also during this period, HEP received proceeds of \$58.4 million upon the issuance of additional common units, received \$197 million and repaid \$152 million in advances under the HEP Credit Agreement and paid distributions of \$23.4 million to noncontrolling interest holders. Additionally, we paid \$6.4 million in deferred financing costs during the nine months ended September 30, 2009 that relate to the Holly Senior Notes issued in June 2009. For the nine months ended September 30, 2008, we purchased \$151.1 million in treasury stock, paid \$21.6 million in dividends, received a \$15 million contribution from our UNEV Pipeline joint venture partner and recognized \$4.3 million in excess tax benefits on our equity based compensation. For this same period, HEP received \$50 million and repaid \$26 million in advances under the HEP Credit Agreement and paid \$14.6 million in distributions to noncontrolling interest holders. Additionally, HEP incurred \$0.1 million in deferred financing costs during the nine months ended September 30, 2008.

**Table of Contents****Contractual Obligations and Commitments*****Holly Corporation***

On October 26, 2009 we issued \$100 million aggregate principal amount of our senior notes as an add-on offering to the \$200 million Holly Senior Notes issued in June 2009, increasing the aggregate principal amount of the Holly Senior Notes to \$300 million. The Holly Senior Notes mature on June 15, 2017 and bear interest at 9.875%.

On October 20, 2009, we announced a definitive agreement with Sinclair to purchase its 75,000 BPD refinery located in Tulsa, Oklahoma for \$128.5 million. The purchase price will consist of \$54.5 million in cash and \$74 million in our common stock. Additionally, we have agreed to purchase approximately 500,000 barrels of inventory at the closing of this transaction at market value. We expect to close on this transaction in December 2009.

With respect to the Tulsa Refinery acquired in June 2009, we have assumed a Resource Conservation and Recovery Act ( RCRA ) Post Closure and Corrective Permit that requires the remediation of contaminated areas at our Tulsa location. Under this permit, we expect to expend approximately \$10 million (present value) through 2038 for remediation projects. In accounting for the Tulsa acquisition, we recorded this obligation as an environmental liability. Capital expenditure obligations that pertain to the Tulsa refineries, including those under a modified consent decree, are discussed under *Planned Capital Expenditures* above.

***HEP***

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

During the nine months ended September 30, 2009, HEP received net advances of \$45 million resulting in \$245 million of outstanding principal under the HEP Credit Agreement at September 30, 2009.

There were no other significant changes to our contractual obligations during the nine months ended September 30, 2009.

**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, 2008. 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 2009.

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.

**Table of Contents**

Our purchase accounting for the Tulsa Refinery acquisition is based on management's preliminary fair value estimates and is subject to change.

**New Accounting Pronouncements***Accounting Standards Codification*

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

*Subsequent Events*

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

*Interim Disclosures about Fair Value of Financial Instruments*

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

*Noncontrolling Interests in Consolidated Financial Statements*

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

*Disclosures about Derivative Instruments and Hedging Activities*

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

*Variable Interest Entities*

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

**Table of Contents****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.

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

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

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

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

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

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

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

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

**Table of Contents**

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

<b>Interest Rate Swaps</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Location of Offsetting Balance</b>	<b>Offsetting Amount</b>
		(In thousands)		
<b>Asset</b>				
Fixed-to-variable interest rate swap \$60 million of 6.25% HEP Senior Notes	Other assets	\$ 2,658	Long-term debt HEP	\$ (1,877)
			Equity	(1,942) <sup>(1)</sup>
			Interest expense	1,161 <sup>(2)</sup>
		\$ 2,658		\$ (2,658)
<b>Liability</b>				
Cash flow hedge \$171 million LIBOR based debt	Other long-term liabilities	\$ (10,182)	Accumulated other comprehensive loss	\$ 10,182
Variable-to-fixed interest rate swap \$60 million	Other long-term liabilities	(3,044)	Equity	4,166 <sup>(1)</sup>
			Interest expense	(1,122)
		\$ (13,226)		\$ 13,226

(1) Represents prior year charges to interest expense.

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

HEP has reviewed publicly available information on its counterparties in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the interest rate swap contracts. HEP has not experienced, nor do they expect to experience, any difficulty in the counterparties honoring their respective commitments.

We invest a substantial portion of available cash in investment grade, highly liquid investments with maturities of three months or less and hence the interest rate market risk implicit in these cash investments is low. We also invest the remainder of available cash in portfolios of highly rated marketable debt securities, primarily issued by government entities, that have an average remaining duration (including any cash equivalents invested) of not greater than one year and hence the interest rate market risk implicit in these investments is also low.

For the fixed rate Holly and HEP Senior Notes, changes in interest rates would generally affect fair value of the debt, but not our earnings or cash flows. At September 30, 2009, the estimated fair value of the Holly Senior Notes and the HEP Senior Notes were \$204 million and \$169.3 million, respectively. We estimate that a hypothetical 10% change in the yield-to-maturity rates applicable to the senior notes would result in an approximate fair value change of \$10.2 million to the Holly Senior Notes and a \$6.2 million change to the HEP Senior Notes.

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.

-51-

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

Set forth below is our calculation of EBITDA.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(In thousands)			
Net income attributable to Holly Corporation stockholders	\$ 23,484	\$ 49,899	\$ 60,034	\$ 70,000
Add provision for income tax	13,680	25,750	35,386	36,301
Add interest expense	12,405	7,376	25,849	15,619
Subtract interest income	(231)	(1,896)	(2,561)	(9,277)
Add depreciation and amortization	24,267	16,740	70,088	45,978
<b>EBITDA</b>	<b>\$ 73,605</b>	<b>\$ 97,869</b>	<b>\$ 188,796</b>	<b>\$ 158,621</b>

***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 all of our refineries on a consolidated basis is calculated as shown below.

	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2009</b>	
Average per produced barrel:				
<i>Navajo Refinery</i>				
Net sales	\$ 78.15	\$ 133.44	\$ 69.21	\$ 122.82
Less cost of products	70.88	120.75	60.25	113.76
Refinery gross margin	\$ 7.27	\$ 12.69	\$ 8.96	\$ 9.06
<i>Woods Cross Refinery</i>				
Net sales	\$ 80.87	\$ 145.86	\$ 66.87	\$ 124.98
Less cost of products	65.68	117.82	55.22	108.40
Refinery gross margin	\$ 15.19	\$ 28.04	\$ 11.65	\$ 16.58
<i>Tulsa Refinery</i>				
Net sales	\$ 76.80	\$	\$ 76.65	\$
Less cost of products	70.10		70.80	
Refinery gross margin	\$ 6.70	\$	\$ 5.85	\$
<i>Consolidated</i>				
Net sales	\$ 78.11	\$ 135.45	\$ 70.16	\$ 123.25
Less cost of products	69.84	120.28	61.26	112.68
Refinery gross margin	\$ 8.27	\$ 15.17	\$ 8.90	\$ 10.57

*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 all of our refineries on a consolidated basis is calculated as shown below.

	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2009</b>	
Average per produced barrel:				
<i>Navajo Refinery</i>				
Refinery gross margin	\$ 7.27	\$ 12.69	\$ 8.96	\$ 9.06

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Less refinery operating expenses	4.37	4.92	4.88	4.96
Net operating margin	\$ 2.90	\$ 7.77	\$ 4.08	\$ 4.10
<b><i>Woods Cross Refinery</i></b>				
Refinery gross margin	\$ 15.19	\$ 28.04	\$ 11.65	\$ 16.58
Less refinery operating expenses	6.44	8.78	6.45	7.59
Net operating margin	\$ 8.75	\$ 19.26	\$ 5.20	\$ 8.99
<b><i>Tulsa Refinery</i></b>				
Refinery gross margin	\$ 6.70	\$	\$ 5.85	\$
Less refinery operating expenses	4.64		4.76	
Net operating margin	\$ 2.06	\$	\$ 1.09	\$
<b><i>Consolidated</i></b>				
Refinery gross margin	\$ 8.27	\$ 15.17	\$ 8.90	\$ 10.57
Less refinery operating expenses	4.77	5.55	5.17	5.49
Net operating margin	\$ 3.50	\$ 9.62	\$ 3.73	\$ 5.08

-53-

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**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**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b><i>Navajo Refinery</i></b>				
Average sales price per produced barrel sold	\$ 78.15	\$ 133.44	\$ 69.21	\$ 122.82
Times sales of produced refined products sold (BPD)	93,996	88,920	84,102	87,630
Times number of days in period	92	92	273	274
Refined product sales from produced products sold	\$ 675,812	\$ 1,091,625	\$ 1,589,051	\$ 2,948,984
<b><i>Woods Cross Refinery</i></b>				
Average sales price per produced barrel sold	\$ 80.87	\$ 145.86	\$ 66.87	\$ 124.98
Times sales of produced refined products sold (BPD)	27,098	17,250	27,061	22,090
Times number of days in period	92	92	273	274
Refined product sales from produced products sold	\$ 201,610	\$ 231,480	\$ 494,012	\$ 756,461
<b><i>Tulsa Refinery</i></b>				
Average sales price per produced barrel sold	\$ 76.80	\$	\$ 76.65	\$
Times sales of produced refined products sold (BPD)	60,596		26,077	
Times number of days in period	92		273	
Refined product sales from produced products sold	\$ 428,147	\$	\$ 545,673	\$
Sum of refined products sales from produced products sold from our three refineries <sup>(4)</sup>	\$ 1,305,569	\$ 1,323,105	\$ 2,628,736	\$ 3,705,445
Add refined product sales from purchased products and rounding <sup>(1)</sup>	21,539	83,435	83,579	338,933
Total refined products sales	1,327,108	1,406,540	2,712,315	4,044,378
Add direct sales of excess crude oil <sup>(2)</sup>	98,540	259,725	320,416	777,162
Add other refining segment revenue <sup>(3)</sup>	50,656	45,180	100,402	103,482
Total refining segment revenue	1,476,304	1,711,445	3,133,133	4,925,022
Add HEP segment sales and other revenues	42,743	30,518	115,470	67,234

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Add corporate and other revenues	229	570	3,307	1,857
Subtract consolidations and eliminations	(28,847)	(22,613)	(72,277)	(50,387)
Sales and other revenues	\$ 1,490,429	\$ 1,719,920	\$ 3,179,633	\$ 4,943,726

- (1) *We purchase finished products when opportunities arise that provide a profit on the sale of such products, or to meet delivery commitments.*
- (2) *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.*

*(3) Other refining  
segment revenue  
includes the  
revenues  
associated with  
Holly Asphalt  
Company and  
revenue derived  
from feedstock  
and sulfur credit  
sales.*

*(4) 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.*

**Table of Contents**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Average sales price per produced barrel sold	\$ 78.11	\$ 135.45	\$ 70.16	\$ 123.25
Times sales of produced refined products sold (BPD)	181,690	106,170	137,240	109,720
Times number of days in period	92	92	273	274
Refined product sales from produced products sold	\$ 1,305,569	\$ 1,323,105	\$ 2,628,736	\$ 3,705,445

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

	<b>Three Months Ended September 30,</b>		<b>Three Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b><i>Navajo Refinery</i></b>				
Average cost of products per produced barrel sold	\$ 70.88	\$ 120.75	\$ 60.25	\$ 113.76
Times sales of produced refined products sold (BPD)	93,996	88,920	84,102	87,630
Times number of days in period	92	92	273	274
Cost of products for produced products sold	\$ 612,944	\$ 987,812	\$ 1,383,331	\$ 2,731,448
<b><i>Woods Cross Refinery</i></b>				
Average cost of products per produced barrel sold	\$ 65.68	\$ 117.82	\$ 55.22	\$ 108.40
Times sales of produced refined products sold (BPD)	27,098	17,250	27,061	22,090
Times number of days in period	92	92	273	274
Cost of products for produced products sold	\$ 163,741	\$ 186,980	\$ 407,946	\$ 656,108
<b><i>Tulsa Refinery</i></b>				
Average cost of products per produced barrel sold	\$ 70.10	\$	\$ 70.80	\$
Times sales of produced refined products sold (BPD)	60,596		26,077	
Times number of days in period	92		273	
Cost of products for produced products sold	\$ 390,796	\$	\$ 504,027	\$
	\$ 1,167,481	\$ 1,174,792	\$ 2,295,304	\$ 3,387,556

Sum of cost of products for produced products sold from our three refineries <sup>(4)</sup>				
Add refined product costs from purchased products sold and rounding <sup>(1)</sup>	22,295	85,188	88,271	343,712
Total refined cost of products sold	1,189,776	1,259,980	2,383,575	3,731,268
Add crude oil cost of direct sales of excess crude oil <sup>(2)</sup>	97,400	257,033	317,954	771,209
Add other refining segment cost of products sold <sup>(3)</sup>	36,282	40,376	56,685	86,489
Total refining segment cost of products sold	1,323,458	1,557,389	2,758,214	4,588,966
Subtract consolidations and eliminations	(28,020)	(22,613)	(71,196)	(50,203)
Costs of products sold (exclusive of depreciation and amortization)	\$ 1,295,438	\$ 1,534,776	\$ 2,687,018	\$ 4,538,763

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

(2) *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.*

*(3) Other refining  
segment cost of  
products sold  
includes the cost  
of products for  
Holly Asphalt  
Company and  
costs  
attributable to  
feedstock and  
sulfur credit  
sales.*

*(4) 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.*



**Table of Contents**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Average cost of products per produced barrel sold	\$ 69.84	\$ 120.28	\$ 61.26	\$ 112.68
Times sales of produced refined products sold (BPD)	181,690	106,170	137,240	109,720
Times number of days in period	92	92	273	274
Cost of products for produced products sold	\$ 1,167,481	\$ 1,174,792	\$ 2,295,304	\$ 3,387,556

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b><i>Navajo Refinery</i></b>				
Average refinery operating expenses per produced barrel sold	\$ 4.37	\$ 4.92	\$ 4.88	\$ 4.96
Times sales of produced refined products sold (BPD)	93,996	88,920	84,102	87,630
Times number of days in period	92	92	273	274
Refinery operating expenses for produced products sold	\$ 37,790	\$ 40,249	\$ 112,044	\$ 119,093
<b><i>Woods Cross Refinery</i></b>				
Average refinery operating expenses per produced barrel sold	\$ 6.44	\$ 8.78	\$ 6.45	\$ 7.59
Times sales of produced refined products sold (BPD)	27,098	17,250	27,061	22,090
Times number of days in period	92	92	273	274
Refinery operating expenses for produced products sold	\$ 16,055	\$ 13,934	\$ 47,650	\$ 45,940
<b><i>Tulsa Refinery</i></b>				
Average refinery operating expenses per produced barrel sold	\$ 4.64	\$	\$ 4.76	\$
Times sales of produced refined products sold (BPD)	60,596		26,077	
Times number of days in period	92		273	
Refinery operating expenses for produced products sold	\$ 25,867	\$	\$ 33,887	\$
Sum of refinery operating expenses per produced products sold from our three refineries <sup>(2)</sup>	\$ 79,712	\$ 54,183	\$ 193,581	\$ 165,033
Add other refining segment operating expenses and rounding <sup>(1)</sup>	6,023	5,901	16,209	16,450

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Total refining segment operating expenses	85,735	60,084	209,790	181,483
Add HEP segment operating expenses	11,449	11,033	33,331	24,694
Add corporate and other costs	7	13	34	20
Subtract consolidations and eliminations	(128)		(382)	(184)
Operating expenses (exclusive of depreciation and amortization)	\$ 97,063	\$ 71,130	\$ 242,773	\$ 206,013

(1) *Other refining segment operating expenses include the marketing costs associated with our refining segment and the operating expenses of Holly Asphalt Company.*

(2) *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.*

	<b>Three Months Ended September 30, 2009</b>		<b>Nine Months Ended September 30, 2008</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Average refinery operating expenses per produced barrel sold	\$ 4.77	\$ 5.55	\$ 5.17	\$ 5.49
Times sales of produced refined products sold (BPD)	181,690	106,170	137,240	109,720
Times number of days in period	92	92	273	274

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Refinery operating expenses for produced products sold	\$ 79,712	\$ 54,183	\$ 193,581	\$ 165,033
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-56-

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b><i>Navajo Refinery</i></b>				
Net operating margin per barrel	\$ 2.90	\$ 7.77	\$ 4.08	\$ 4.10
Add average refinery operating expenses per produced barrel	4.37	4.92	4.88	4.96
Refinery gross margin per barrel	7.27	12.69	8.96	9.06
Add average cost of products per produced barrel sold	70.88	120.75	60.25	113.76
Average sales price per produced barrel sold	\$ 78.15	\$ 133.44	\$ 69.21	\$ 122.82
Times sales of produced refined products sold (BPD)	93,996	88,920	84,102	87,630
Times number of days in period	92	92	273	274
Refined products sales from produced products sold	\$ 675,812	\$ 1,091,625	\$ 1,589,051	\$ 2,948,984
<b><i>Woods Cross Refinery</i></b>				
Net operating margin per barrel	\$ 8.75	\$ 19.26	\$ 5.20	\$ 8.99
Add average refinery operating expenses per produced barrel	6.44	8.78	6.45	7.59
Refinery gross margin per barrel	15.19	28.04	11.65	16.58
Add average cost of products per produced barrel sold	65.68	117.82	55.22	108.40
Average sales price per produced barrel sold	\$ 80.87	\$ 145.86	\$ 66.87	\$ 124.98
Times sales of produced refined products sold (BPD)	27,098	17,250	27,061	22,090
Times number of days in period	92	92	273	274
Refined products sales from produced products sold	\$ 201,610	\$ 231,480	\$ 494,012	\$ 756,461
<b><i>Tulsa Refinery</i></b>				
Net operating margin per barrel	\$ 2.06	\$	\$ 1.09	\$
Add average refinery operating expenses per produced barrel	4.64		4.76	
Refinery gross margin per barrel	6.70		5.85	
Add average cost of products per produced barrel sold	70.10		70.80	

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Average sales price per produced barrel sold	\$ 76.80	\$	\$ 76.65	\$
Times sales of produced refined products sold (BPD)	60,596		26,077	
Times number of days in period	92		273	
Refined products sales from produced products sold	\$ 428,147	\$	\$ 545,673	\$
Sum of refined products sales from produced products sold from our three refineries <sup>(4)</sup>	\$ 1,305,569	\$ 1,323,105	\$ 2,628,736	\$ 3,705,445
Add refined product sales from purchased products and rounding <sup>(1)</sup>	21,539	83,435	83,579	338,933
Total refined products sales	1,327,108	1,406,540	2,712,315	4,044,378
Add direct sales of excess crude oil <sup>(2)</sup>	98,540	259,725	320,416	777,162
Add other refining segment revenue <sup>(3)</sup>	50,656	45,180	100,402	103,482
Total refining segment revenue	1,476,304	1,711,445	3,133,133	4,925,022
Add HEP segment sales and other revenues	42,743	30,518	115,470	67,234
Add corporate and other revenues	229	570	3,307	1,857
Subtract consolidations and eliminations	(28,847)	(22,613)	(72,277)	(50,387)
Sales and other revenues	\$ 1,490,429	\$ 1,719,920	\$ 3,179,633	\$ 4,943,726

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

(2) *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.*

*(3) Other refining segment revenue includes the revenues associated with Holly Asphalt Company and revenue derived from feedstock and sulfur credit sales.*

*(4) 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.*

-57-

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**Table of Contents**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net operating margin per barrel	\$ 3.50	\$ 9.62	\$ 3.73	\$ 5.08
Add average refinery operating expenses per produced barrel	4.77	5.55	5.17	5.49
Refinery gross margin per barrel	8.27	15.17	8.90	10.57
Add average cost of products per produced barrel sold	69.84	120.28	61.26	112.68
Average sales price per produced barrel sold	\$ 78.11	\$ 135.45	\$ 70.16	\$ 123.25
Times sales of produced refined products sold (BPD)	181,690	106,170	137,240	109,720
Times number of days in period	92	92	273	274
Refined product sales from produced products sold	\$ 1,305,569	\$ 1,323,105	\$ 2,628,736	\$ 3,705,445

-58-



**Table of Contents**

**Item 4. Controls and Procedures**

**Evaluation of disclosure controls and procedures.** Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2009.

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

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings****SFPP Litigation****a. The Early Complaint Cases**

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

**b. Settlements**

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

**c. The Latest Rate Proceeding**

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

**MTBE Litigation**

Our Navajo Refining Company subsidiary was named as a defendant, along with approximately 40 other companies involved in oil refining and marketing and related businesses, in a lawsuit originally filed in May 2006 by the State of New Mexico in the U.S. District Court for the District of New Mexico and subsequently transferred to the U.S. District Court for the Southern District of New York under multidistrict procedures along with approximately 100 similar cases, in which Navajo is not named, brought by other governmental entities and private parties in other states. The lawsuit, in which Navajo is named, as amended in October 2006 through the filing of a second amended complaint, alleges that the defendants are liable for contaminating the waters of New Mexico through producing and/or supplying MTBE or gasoline or other products containing MTBE. The lawsuit asserts claims for defective

**Table of Contents**

design or product, failure to warn, negligence, public nuisance, statutory public nuisance, private nuisance, trespass, and civil conspiracy, and seeks compensatory damages unspecified in amount, injunctive relief, exemplary and punitive damages, costs, attorney's fees allowed by law, and interest allowed by law. The second amended complaint also contains a claim, asserted against certain other defendants but not against Navajo, alleging violations of certain provisions of the Toxic Substances Control Act, which appears to be similar to a claim previously threatened in a mailing to Navajo and other defendants by law firms representing the plaintiffs. Most other defendants have been dismissed from this lawsuit as a result of settlements. As of the close of business on the day prior to the date of this report, Navajo has not been served in this lawsuit. At the date of this report, it is not possible to predict the likely course or outcome of this litigation.

**NMED NOV**

In October 2008, the New Mexico Environment Department ( NMED ) issued an Amended Notice of Violation and Proposed Penalties ( Amended NOV ) to Navajo Refining Company, amending an NOV issued in February 2007. The NOV is a preliminary enforcement document issued by NMED and usually is the predicate to formal administrative or judicial enforcement. The February 2007 NOV was issued following two hazardous waste compliance evaluation inspections at the Artesia, New Mexico refinery that were conducted in April and November 2006 and alleged violations of the New Mexico Hazardous Waste Management Regulations and Navajo's Hazardous Waste Permit. NMED proposed a civil penalty of approximately \$0.1 million for the February 2007 NOV. The Amended NOV includes additional alleged violations concerning post-closure care of a hazardous waste land treatment unit and the construction of a tank on the land treatment area. The Amended NOV also proposes an additional civil penalty of \$0.3 million. Navajo has submitted responses to the February 2007 NOV and the Amended NOV, challenging certain alleged violations and proposed penalty amounts and is continuing negotiations with the NMED to resolve these matters expeditiously.

**Woods Cross Construction Dispute 1**

Our Holly Refining & Marketing Company Woods Cross and Woods Cross Refining Company, LLC subsidiaries are named, along with other parties, as defendants in a lawsuit filed in December 2008 by Brahma Group, Inc. in state district court in Davis County, Utah involving a construction dispute regarding the installation of improvements known as a crude desalter, crude unloader, and west tank farm at our Woods Cross, Utah refinery. This matter has been resolved through mutual agreement of the parties. All liens have been released and a stipulated motion to dismiss all claims in the action with prejudice has been filed with the court.

**Woods Cross Construction Dispute 2**

Our Holly Refining & Marketing Company Woods Cross and Woods Cross Refining Company, LLC subsidiaries are named, along with other parties, as defendants in a lawsuit filed on April 22, 2009 by Brahma Group, Inc. in state district court in Davis County, Utah involving a construction dispute over the installation of an oil gas hydrocracker at the Woods Cross, Utah refinery. The lawsuit alleges that the defendants caused delays, additional work and increased costs in the installation of the oil gas hydrocracker for which the plaintiff was not paid. The claims made against our subsidiaries are for lien foreclosure, failure to obtain a payment bond, and implied contract. The lawsuit seeks compensatory damages in the approximate amount of \$12 million, costs, attorney's fees allowed by law, and interest allowed by law. A lien has also been filed in the county records against the refinery property in that amount. Our subsidiaries have tendered defense of the complaint to the general contractor, Benham Constructors. Our subsidiaries have answered the complaint and denied any liability. The plaintiff and the general contractor have agreed to arbitrate their dispute, and the claims against our subsidiaries have been stayed pending the outcome of that arbitration. At the date of this report, it is not possible to predict the likely course or outcome of this litigation.

**Cut Bank Hill Environmental Claims**

Prior to the sale by Holly Corporation of the Montana Refining Company ( MRC ) assets in 2006, MRC, along with other companies was the subject of several environmental claims at the Cut Bank Hill site in Montana. These claims include: (1) a U.S. Environmental Protection Agency administrative order requiring MRC and other companies to undertake cleanup actions; (2) a U.S. Coast Guard claim against MRC and other companies for response costs of

**Table of Contents**

\$298,500 in connection with its cleanup efforts at the Cut Bank Hill site; and (3) a unilateral order by the Montana Department of Environmental Quality ( MDEQ ) directing MRC and other companies to complete a remedial investigation and a request by the MDEQ that MRC and other companies pay approximately \$150,000 to reimburse the State s costs for remedial actions. MRC has denied responsibility for the requested EPA and the MDEQ cleanup actions and the MDEQ and Coast Guard response costs.

**OSHA Inspection**

In June 2007, the Federal Occupational Safety and Health Administration ( OSHA ) announced a national emphasis program ( NEP ) for inspecting approximately 80 refineries within its jurisdiction. As a part of the NEP, OSHA encouraged the State Plan States such as Utah to initiate their own version of the NEP. Beginning on May 1, 2008, the Utah Labor Commission, Occupational Safety and Health Division ( UOSH ) began an inspection of the refinery which is operated by Holly Refining and Marketing Company Woods Cross and is located in Woods Cross, Utah. The inspection ended on September 18 and on October 23, 2008, UOSH issued one citation alleging 33 violations of various safety standards including the Process Safety Management Standard and proposing a penalty of \$91,750. We filed a notice of contest with the Adjudicative Division, Utah Labor Commission, in Salt Lake City, Utah. On February 18, 2009, the initial status conference for this matter was held and a scheduling order was issued. Our answer was filed and served on March 4th and discovery will continue until January 6, 2010. No hearing date has been set. We intend to vigorously defend this citation and believe that we have strong defenses on the merits.

**Unclaimed Property Audit**

A multi-state audit of our unclaimed property compliance and reporting is being conducted by Kelmar Associates, LLC on behalf of eleven states. We are still reviewing records in order to determine whether there are any errors in reporting and expect for this process to take several years to be resolved due to the lengthy period covered by the audit (1981 2004). It is not yet possible to accurately estimate the amount, if any, which is owed to each of the states since only preliminary investigation has occurred to date.

**Other**

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

**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

- 10.1 Second Amended and Restated Omnibus Agreement, dated as of August 1, 2009, by and among Holly Corporation, Holly Energy Partners, L.P., and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.2 of Holly Energy Partners L.P.'s Form 8-K Current Report dated August 6, 2009, File No. 1 32225).
  - 10.2 Tulsa Equipment and Throughput Agreement, dated as of August 1, 2009, between Holly Refining & Marketing Tulsa LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.3 of Holly Energy Partners L.P.'s Form 8-K Current Report dated August 6, 2009, File No. 1 32225).
  - 10.3 Tulsa Purchase Option agreement, dated as of August 1, 2009, between Holly Refining & Marketing Tulsa LLC and HEP Tulsa LLC (incorporated by reference to Exhibit 10.4 of Holly Energy Partners L.P.'s Form 8-K Current Report dated August 6, 2009, File No. 1 32225).
  - 31.1+ Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2+ Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1++ Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2++ Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
- + Filed herewith.
- ++ Furnished herewith.

**Table of Contents**

**SIGNATURES**

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

**HOLLY CORPORATION**

(Registrant)

Date: November 6, 2009

/s/ Bruce R. Shaw  
Bruce R. Shaw  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Scott C. Surplus  
Scott C. Surplus  
Vice President and Controller  
(Principal Accounting Officer)

-64-