

HOLLY CORP
Form 10-Q
November 05, 2010

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, 2010

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

Edgar Filing: HOLLY CORP - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

53,210,016 shares of Common Stock, par value \$.01 per share, were outstanding on October 29, 2010.

**HOLLY CORPORATION
INDEX**

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Forward-Looking Statements</u>	3
<u>Definitions</u>	4
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets September 30, 2010 (Unaudited) and December 31, 2009</u>	6
<u>Consolidated Statements of Income (Unaudited) Three and Nine Months Ended September 30, 2010 and 2009</u>	7
<u>Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended September 30, 2010 and 2009</u>	8
<u>Consolidated Statements of Comprehensive Income (Unaudited) Three and Nine Months Ended September 30, 2010 and 2009</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
<u>PART II. OTHER INFORMATION</u>	
<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>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</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. For periods after our reconsolidation of Holly Energy Partners, L.P. (HEP) effective March 1, 2008, the words we, our, ours and us generally include HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation with certain exceptions where there are transactions or obligations between HEP and Holly Corporation or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of 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 existing or future acquired operations;

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

- general economic conditions; and

other financial, operational and legal risks and uncertainties detailed from time to time in our 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, 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, 2009 and in conjunction with the discussion in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Liquidity and Capital Resources." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

- 3 -

Table of Contents

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LPG means liquid petroleum gases.

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

Table of Contents

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

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

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

MMSCFD means one million standard cubic feet per day.

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

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

PPM means parts-per-million.

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

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

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

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

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

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

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

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

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

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

(In thousands, except share data)

	September 30, 2010	December 31, 2009
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents <i>(HEP: \$706 and \$2,508, respectively)</i>	\$ 271,920	\$ 124,596
Marketable securities	1,171	1,223
Accounts receivable: Product and transportation <i>(HEP: \$21,319 and \$18,767, respectively)</i>	250,098	292,310
Crude oil resales	468,373	470,145
	718,471	762,455
Inventories: Crude oil and refined products	368,260	259,582
Materials and supplies <i>(HEP: \$197 and \$165, respectively)</i>	45,755	43,931
	414,015	303,513
Income taxes receivable	26,269	38,072
Prepayments and other <i>(HEP: \$924 and \$574, respectively)</i>	43,261	50,957
Current assets of discontinued operations <i>(HEP: \$2,195)</i>		2,195
Total current assets	1,475,107	1,283,011
Properties, plants and equipment, at cost <i>(HEP: \$535,464 and \$491,999, respectively)</i>	2,130,680	2,001,855
Less accumulated depreciation <i>(HEP: \$(52,678) and \$(33,478), respectively)</i>	(433,297)	(371,885)
	1,697,383	1,629,970
Other assets: Turnaround costs	50,948	53,463
Goodwill <i>(HEP: \$81,602 and \$81,602)</i>	81,602	81,602
Intangibles and other <i>(HEP: \$73,192 and \$77,443, respectively)</i>	92,339	97,893
	224,889	232,958
Total assets	\$ 3,397,379	\$ 3,145,939

LIABILITIES AND EQUITY**Current liabilities:**

Edgar Filing: HOLLY CORP - Form 10-Q

Accounts payable (<i>HEP: \$5,786 and \$6,211, respectively</i>)	\$ 1,044,277	\$ 975,155
Accrued liabilities (<i>HEP: \$15,752 and \$13,594, respectively</i>)	69,072	49,957
Credit agreement borrowings (<i>HEP: \$157,000</i>)	157,000	
Total current liabilities	1,270,349	1,025,112
Long-term debt (<i>HEP: \$322,623 and \$379,198, respectively</i>)	650,906	707,458
Deferred income taxes	129,677	124,585
Other long-term liabilities (<i>HEP: \$12,534 and \$12,349, respectively</i>)	80,970	81,003
Equity:		
Holly Corporation stockholders equity:		
Preferred stock, \$1.00 par value 1,000,000 shares authorized; none issued		
Common stock \$.01 par value 160,000,000 shares authorized; 76,346,432 and 76,359,006 shares issued as of September 30, 2010 and December 31, 2009, respectively	764	764
Additional capital	191,030	195,565
Retained earnings	1,199,605	1,134,341
Accumulated other comprehensive loss	(26,360)	(25,700)
Common stock held in treasury, at cost 23,136,416 and 23,292,737 shares as of September 30, 2010 and December 31, 2009, respectively	(677,912)	(685,931)
Total Holly Corporation stockholders equity	687,127	619,039
Noncontrolling interest	578,350	588,742
Total equity	1,265,477	1,207,781
Total liabilities and equity	\$ 3,397,379	\$ 3,145,939

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (HEP) as of September 30, 2010 and December 31, 2009. HEP is a consolidated variable interest entity.

See accompanying notes.

Table of Contents

HOLLY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Sales and other revenues	\$ 2,090,988	\$ 1,488,491	\$ 6,111,138	\$ 3,172,299
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	1,807,044	1,295,438	5,379,120	2,687,018
Operating expenses (exclusive of depreciation and amortization)	130,263	96,717	378,638	241,518
General and administrative expenses (exclusive of depreciation and amortization)	16,925	16,728	50,623	43,572
Depreciation and amortization	29,138	24,026	85,719	69,367
Total operating costs and expenses	1,983,370	1,432,909	5,894,100	3,041,475
Income from operations	107,618	55,582	217,038	130,824
Other income (expense):				
Equity in earnings of SLC Pipeline	570	646	1,595	1,309
Interest income	64	231	758	2,561
Interest expense	(17,368)	(12,407)	(56,113)	(25,849)
Tulsa Refinery acquisition costs		(378)		(1,988)
	(16,734)	(11,908)	(53,760)	(23,967)
Income from continuing operations before income taxes	90,884	43,674	163,278	106,857
Income tax provision:				
Current	9,042	6,085	48,964	9,075
Deferred	22,452	7,412	5,512	25,593
	31,494	13,497	54,476	34,668
Income from continuing operations	59,390	30,177	108,802	72,189
Income from discontinued operations, net of taxes of \$182 and \$718, respectively		901		3,438
Net income	59,390	31,078	108,802	75,627

Less net income attributable to noncontrolling interest	8,213	7,594	19,557	15,593
Net income attributable to Holly Corporation stockholders	\$ 51,177	\$ 23,484	\$ 89,245	\$ 60,034
Earnings attributable to Holly Corporation stockholders:				
Income from continuing operations	\$ 51,177	\$ 23,213	\$ 89,245	\$ 59,014
Income from discontinued operations		271		1,020
Net income	\$ 51,177	\$ 23,484	\$ 89,245	\$ 60,034
Earnings per share attributable to Holly Corporation stockholders basic:				
Income from continuing operations	\$ 0.96	\$ 0.46	\$ 1.68	\$ 1.18
Income from discontinued operations		0.01		0.02
Net income	\$ 0.96	\$ 0.47	\$ 1.68	\$ 1.20
Earnings per share attributable to Holly Corporation stockholders diluted:				
Income from continuing operations	\$ 0.96	\$ 0.46	\$ 1.67	\$ 1.17
Income from discontinued operations		0.01		0.02
Net income	\$ 0.96	\$ 0.47	\$ 1.67	\$ 1.19
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.45
Average number of common shares outstanding:				
Basic	53,210	50,244	53,172	50,153
Diluted	53,567	50,327	53,531	50,272
See accompanying notes.				

Table of Contents

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

	Nine Months Ended	
	September 30,	
	2010	2009⁽¹⁾
Cash flows from operating activities:		
Net income	\$ 108,802	\$ 75,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85,719	70,088
SLC Pipeline earnings, net of distributions	406	(1,309)
Deferred income taxes	5,512	25,593
Equity based compensation expense	7,814	6,579
Change in fair value interest rate swaps	1,464	300
Noncontrolling interest in earnings of Rio Grande Pipeline Company		1,191
(Increase) decrease in current assets:		
Accounts receivable	43,984	(327,568)
Inventories	(110,502)	(73,813)
Income taxes receivable	11,803	966
Prepayments and other	(304)	(7,987)
Current assets of discontinued operations	2,195	
Increase (decrease) in current liabilities:		
Accounts payable	69,030	429,465
Accrued liabilities	17,971	1,225
Turnaround expenditures	(11,453)	(33,112)
Other, net	3,527	12,407
Net cash provided by operating activities	235,968	179,652
Cash flows from investing activities:		
Additions to properties, plants and equipment Holly Corporation	(119,885)	(218,543)
Additions to properties, plants and equipment Holly Energy Partners	(8,054)	(27,478)
Acquisition of Tulsa Refinery west facility Holly Corporation		(157,814)
Investment in SLC Pipeline Holly Energy Partners		(25,500)
Purchases of marketable securities		(165,892)
Sales and maturities of marketable securities		220,281
Net cash used for investing activities	(127,939)	(374,946)
Cash flows from financing activities:		
Borrowings under credit agreement Holly Corporation	310,000	94,000
Repayments under credit agreement Holly Corporation	(310,000)	(94,000)
Borrowings under credit agreement Holly Energy Partners	52,000	197,000
Repayments under credit agreement Holly Energy Partners	(101,000)	(152,000)
Proceeds from issuance of senior notes Holly Corporation		187,925
Proceeds from issuance of senior notes Holly Energy Partners	147,540	
Proceeds from issuance of common units Holly Energy Partners		58,355

Repayments under financing obligation	Holly Corporation	(760)	
Purchase of treasury stock		(1,308)	(1,214)
Contribution from joint venture partner		9,500	13,650
Dividends		(23,889)	(22,569)
Distributions to noncontrolling interest		(36,139)	(23,359)
Excess tax benefit (expense) from equity based compensation		(1,313)	2,140
Purchase of units for restricted grants	Holly Energy Partners	(2,276)	(616)
Deferred financing costs		(3,121)	(6,356)
Issuance of common stock upon exercise of options		61	60
Net cash provided by financing activities		39,295	253,016

Cash and cash equivalents:

Increase for the period		147,324	57,722
Beginning of period		124,596	40,805
End of period		\$ 271,920	\$ 98,527

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest		\$ 49,051	\$ 20,555
Income taxes		\$ 45,040	\$ 18,219

(1) Includes cash flows attributable to discontinued operations.

See accompanying notes.

Table of Contents

HOLLY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net income	\$ 59,390	\$ 31,078	\$ 108,802	\$ 75,627
Other comprehensive income (loss):				
Securities available for sale:				
Unrealized gain (loss) on available-for-sale securities	(51)	234	(58)	(24)
Reclassification adjustment to net income on sale of marketable securities				236
Total unrealized gain (loss) on available-for-sale securities	(51)	234	(58)	212
Hedging instruments:				
Change in fair value of cash flow hedging instruments	(1,780)	(1,482)	(4,837)	2,685
Reclassification adjustment to net income on maturity / settlement of cash flow hedging instruments	(65)		1,011	
Total unrealized gain (loss) on hedging instruments	(1,845)	(1,482)	(3,826)	2,685
Other comprehensive income (loss) before income taxes	(1,896)	(1,248)	(3,884)	2,897
Income tax expense (benefit)	(558)	(173)	(420)	560
Other comprehensive income (loss)	(1,338)	(1,075)	(3,464)	2,337
Total comprehensive income	58,052	30,003	105,338	77,964
Less noncontrolling interest in comprehensive income	7,752	6,790	16,753	17,049
Comprehensive income attributable to Holly Corporation stockholders	\$ 50,300	\$ 23,213	\$ 88,585	\$ 60,915

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. For periods after our reconsolidation of Holly Energy Partners, L.P. (HEP) effective March 1, 2008, the words we, our, ours and us generally include HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation with certain exceptions where there are transactions or obligations between HEP and Holly Corporation or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of Holly Corporation. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

As of September 30, 2010, we:

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

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

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

owned a 34% interest in HEP (which includes our 2% general partnership interest), which owns and operates logistics assets including approximately 2,500 miles of petroleum product and crude oil pipelines located principally in west Texas and New Mexico; ten refined product terminals; a jet fuel terminal; eight refinery loading rack facilities; a refined products tank farm facility; on-site crude oil tankage at our Navajo, Woods Cross and Tulsa Refineries, on-site refined product tankage at our Tulsa Refinery and a 25% interest in a 95-mile, crude oil pipeline joint venture (the 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, 2010, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2010 and 2009 and consolidated cash flows for the nine months ended September 30, 2010 and 2009 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States (GAAP) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC.

Our results of operations for the first nine months of 2010 are not necessarily indicative of the results to be expected for the full year.

Accounts Receivable

Our accounts receivable consist of amounts due from customers that are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer's financial condition and in certain circumstances, collateral, such as a letter of credit or guarantee, is required. Credit losses are charged to income

Table of Contents

when accounts are deemed uncollectible and historically have been minimal. At September 30, 2010, our allowance for doubtful accounts reserve was \$1.9 million.

Inventories

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

New Accounting Pronouncements***Variable Interest Entities***

On January 1, 2010, new accounting standards became effective that 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 enhance disclosure requirements with respect to an entity's involvement in a VIE. See Note 3 for additional information on our involvement with HEP, a consolidated VIE.

NOTE 2: Tulsa Refinery Acquisition

On June 1, 2009, we acquired an 85,000 BPSD refinery located in Tulsa, Oklahoma (the Tulsa Refinery west facility) from an affiliate of Sunoco, Inc. (Sunoco) for \$157.8 million in cash, including crude oil, refined product and other inventories valued at \$92.8 million. The refinery produces fuel products including gasoline, diesel fuel and jet fuel, 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 October 20, 2009, we sold to an affiliate of Plains All American Pipeline, L.P. (Plains) a portion of the crude oil petroleum storage, and certain refining-related crude oil receiving pipeline facilities that were acquired as part of the refinery assets for \$40 million. Due to our continuing involvement in these assets, this transaction has been accounted for as a financing transaction. See Note 10 for additional information.

On December 1, 2009, we acquired a 75,000 BPSD refinery that is also in Tulsa, Oklahoma (the Tulsa Refinery east facility) from an affiliate of Sinclair Oil Company (Sinclair) for \$183.3 million, including crude oil, refined product and other inventories valued at \$46.4 million. The total purchase price consisted of \$109.3 million in cash and 2,789,155 shares of our common stock having a value of \$74 million. Additionally, we reimbursed Sinclair \$8.4 million upon their completion of certain environmental projects at the refinery in July 2010. The refinery produces gasoline, diesel fuel and jet fuel products and also serves markets in the Mid-Continent region of the United States. We are in the process of integrating the operations of both Tulsa Refinery facilities. This will result in the Tulsa Refinery having an integrated crude processing rate of 125,000 BPSD.

In accounting for these combined acquisitions, we recorded \$20.6 million in materials and supplies, \$139.2 million in crude oil and refined products inventory, \$203.8 million in property, plants and equipment, \$8.2 million in prepayments and other, \$6.3 million in accrued liabilities and \$24.4 million in other long-term liabilities. The acquired liabilities primarily relate to environmental and asset retirement obligations. Additionally, we incurred \$3.1 million in costs directly related to these acquisitions that were expensed as acquisition costs in 2009.

NOTE 3: Holly Energy Partners

HEP, a VIE, is a publicly held master limited partnership that was formed to acquire, own and operate the petroleum product and crude oil pipeline and terminal, tankage and loading rack facilities that support our refining and marketing operations in west Texas, New Mexico, Utah, Oklahoma, Idaho and Arizona. HEP also

Table of Contents

owns and operates refined product pipelines and terminals, located primarily in Texas, that service Alon USA, Inc.'s (Alon) refinery in Big Spring, Texas.

As of September 30, 2010, we owned a 34% interest in HEP, including the 2% general partner interest. As the general partner of HEP, we have the sole ability to direct the activities of HEP that most significantly impact HEP's economic performance. Additionally, since our obligation to absorb losses and receive benefits from HEP are significant to HEP, we are HEP's primary beneficiary and therefore we consolidate HEP. See Note 17 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated financial statements. All intercompany transactions with HEP are eliminated in our consolidated balances.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 81% of HEP's total revenues for the nine months ended September 30, 2010. We do not provide financial or equity support through any liquidity arrangements and/or guarantees to HEP.

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

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

2010 Acquisitions***Tulsa East / Lovington Storage Asset Transaction***

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

2009 Acquisitions***Sinclair Logistics and Storage Assets Transaction***

On December 1, 2009, HEP acquired from Sinclair storage tanks having approximately 1.4 million barrels of storage capacity and loading racks at its refinery located in Tulsa, Oklahoma for \$79.2 million. The purchase price consisted of \$25.7 million in cash, including \$4.2 million in taxes and 1,373,609 of HEP's common units having a fair value of \$53.5 million.

With respect to this purchase, HEP recorded \$30.2 million in properties and equipment, \$49.1 million in goodwill and \$0.2 million in other long-term liabilities.

Roadrunner / Beeson Pipelines Transaction

Also on December 1, 2009, HEP acquired our two newly constructed pipelines for \$46.5 million, consisting of a 65-mile, 16-inch crude oil pipeline (the Roadrunner Pipeline) that connects our Navajo Refinery Lovington facility to a terminus of Centurion Pipeline L.P.'s pipeline extending between west Texas and Cushing, Oklahoma and a 37-mile, 8-inch crude oil pipeline that connects HEP's New Mexico crude oil gathering system to our Navajo Refinery Lovington facility (the Beeson Pipeline).

Table of Contents***Tulsa West Loading Racks Transaction***

On August 1, 2009, HEP acquired from us certain truck and rail loading/unloading facilities located at our Tulsa Refinery west facility for \$17.5 million. The racks load refined products and lube oils produced at the Tulsa Refinery onto rail cars and/or tanker trucks.

Lovington-Artesia Pipeline Transaction

On June 1, 2009, HEP acquired our newly constructed, 16-inch intermediate pipeline for \$34.2 million that runs 65 miles from our Navajo Refinery's crude oil distillation and vacuum facilities in Lovington, New Mexico to its petroleum refinery located in Artesia, New Mexico.

SLC Pipeline Joint Venture Interest

On March 1, 2009, HEP acquired a 25% joint venture interest in the SLC Pipeline, a new 95-mile intrastate pipeline system jointly owned with Plains. HEP's capitalized joint venture contribution was \$25.5 million.

Discontinued Operations

On December 1, 2009, HEP sold its 70% interest in Rio Grande Pipeline Company (Rio Grande) to a subsidiary of Enterprise Products Partners LP for \$35 million. Results of operations of Rio Grande are presented in discontinued operations.

In accounting for the sale, HEP recorded a gain of \$14.5 million and a receivable of \$2.2 million representing its final distribution from Rio Grande. The recorded net asset balance of Rio Grande at December 1, 2009, was \$22.7 million, consisting of cash of \$3.1 million, \$29.9 million in properties and equipment, net and \$10.3 million in equity, representing BP, Plc's 30% noncontrolling interest.

Cash flows from discontinued operations have been combined with cash flows from continuing operations for presentation purposes in the Consolidated Statements of Cash Flows. For the nine months ended September 30, 2009, net cash flows provided by discontinued Rio Grande operations were \$5.7 million.

Transportation Agreements

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

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

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

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

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

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

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

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

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

Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP. These minimum annual payments are 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

Table of Contents

change in PPI or Federal Energy Regulatory Commission (FERC) index, but with the exception of the HEP IPA, generally will not decrease as a result of a decrease in the PPI or FERC index. The FERC index is the change in the PPI plus a FERC adjustment factor that is reviewed periodically. Following the July 1, 2010 PPI adjustment, these agreements will result in minimum annualized payments to HEP of \$133 million.

HEP Equity Offerings

In November 2009, HEP issued 2,185,000 of its common units priced at \$35.78 per unit. Aggregate net proceeds of \$74.9 million were used to fund the cash portion of HEP's December 1, 2009 asset acquisitions, to repay outstanding borrowings under HEP's credit agreement and for general partnership purposes.

Additionally in May 2009, HEP issued 2,192,400 of its common units priced at \$27.80 per unit. Net proceeds of \$58.4 million were used to repay outstanding borrowings under HEP's credit agreement and for general partnership purposes.

NOTE 4: Financial Instruments

Our financial instruments consist of cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable, debt and derivative instruments. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Debt consists of outstanding principal under HEP's revolving credit agreement, our 9.875% senior notes due 2017 (the Holly 9.875% Senior Notes), HEP's 6.25% senior notes due 2015 (the HEP 6.25% Senior Notes) and HEP's 8.25% senior notes due 2018 (the HEP 8.25% Senior Notes). The \$157 million carrying amount of outstanding debt under HEP's credit agreement approximates fair value as interest rates are reset frequently using current interest rates. At September 30, 2010, the estimated fair value of the Holly 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes were \$324 million, \$183.2 million and \$156.8 million, respectively. These fair value estimates are based on market quotes provided from a third-party bank. See Note 10 for additional information on these debt instruments.

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 7 for additional information on our investments in marketable securities, including fair value measurements. We have commodity price swaps and HEP has an interest rate swap that 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 the respective swap agreements. The measurements are computed using market-based observable inputs, quoted forward commodity prices with respect to our commodity price swaps and the forward London Interbank Offered Rate (LIBOR) yield curve with respect to HEP's interest rate swap. See Note 11 for additional information on these swap contracts, including fair value measurements.

Table of Contents**NOTE 5: Earnings Per Share**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Earnings attributable to Holly Corporation stockholders:				
Income from continuing operations	\$ 51,177	\$ 23,213	\$ 89,245	\$ 59,014
Average number of shares of common stock outstanding	53,210	50,244	53,172	50,153
Effect of dilutive stock options, variable restricted shares and performance share units	357	83	359	119
Average number of shares of common stock outstanding assuming dilution	53,567	50,327	53,531	50,272
Basic earnings per share from continuing operations	\$ 0.96	\$ 0.46	\$ 1.68	\$ 1.18
Diluted earnings per share from continuing operations	\$ 0.96	\$ 0.46	\$ 1.67	\$ 1.17

NOTE 6: Stock-Based Compensation

On September 30, 2010, we had three principal share-based compensation plans that are described below (collectively, the Long-Term Incentive Compensation Plan). The compensation cost that has been charged against income for these plans was \$2.1 million and \$2 million for the three months ended September 30, 2010 and 2009, respectively, and \$6.2 million and \$5.5 million for the nine months ended September 30, 2010 and 2009, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$0.8 million for the three months ended September 30, 2010 and 2009, and \$2.4 million and \$2.1 million for the nine months ended September 30, 2010 and 2009, 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, 2010, 1,585,756 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 was \$0.4 million and \$0.2 million for the three months ended September 30, 2010 and 2009, respectively, and \$1.8 million and \$1.1 million for the nine months ended September 30, 2010 and 2009, 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 after the grant date. There have been no options granted since December 2001. The fair value on the date of grant for each option awarded was estimated using the Black-Scholes option pricing model.

Table of Contents

A summary of option activity and changes during the nine months ended September 30, 2010 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding and exercisable at January 1, 2010	40,200	\$ 2.98		
Exercised	(20,700)	2.98		
Outstanding and exercisable at September 30, 2010	19,500	\$ 2.98	6 months	\$ 503

The total intrinsic value of options exercised during the nine months ended September 30, 2010 and 2009, was \$0.5 million and \$0.4 million, respectively.

Cash received from option exercises under the stock option plans was \$0.1 million for the nine months ended September 30, 2010 and 2009. The actual tax benefit realized for the tax deductions from option exercises under the stock option plans totaled \$0.2 million for the nine months ended September 30, 2010 and 2009.

Restricted Stock

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

A summary of restricted stock activity and changes during the nine months ended September 30, 2010 is presented below:

Restricted Stock	Grants	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2010 (non-vested)	284,450	\$ 31.82	
Vesting and transfer of ownership to recipients	(123,307)	33.84	
Granted	192,248	28.44	
Forfeited	(2,714)	28.38	
Outstanding at September 30, 2010 (non-vested)	350,677	\$ 29.29	\$ 10,082

The total fair value of restricted stock vested and transferred to recipients during the nine months ended September 30, 2010 and 2009 was \$4.2 million and \$3.9 million, respectively. As of September 30, 2010, there was \$3.3 million of total unrecognized compensation cost related to non-vested restricted stock grants. That cost is expected to be recognized over a weighted-average period of 1 year.

Performance Share Units

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

performance criteria.

During the nine months ended September 30, 2010, we granted 110,489 performance share units having a fair value based on our grant date closing stock price of \$29.17. These units are payable in stock and are subject to certain financial performance criteria.

- 16 -

Table of Contents

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, 2010, estimated share payouts for outstanding non-vested performance share unit awards ranged from 125% to 130%.

A summary of performance share unit activity and changes during the nine months ended September 30, 2010 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2010 (non-vested)	215,170
Vesting and transfer of ownership to recipients	(38,653)
Granted	110,489
Forfeited	(3,720)
Outstanding at September 30, 2010 (non-vested)	283,286

For the nine months ended September 30, 2010, we issued 66,483 shares of our common stock having a fair value of \$2.2 million related to vested performance share units, representing a 172% payout. Based on the weighted average grant date fair value of \$3.2 million, there was \$4.7 million of total unrecognized compensation cost related to non-vested performance share units. That cost is expected to be recognized over a weighted-average period of 1.4 years.

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

Our investment portfolio consisted of cash and cash equivalents at September 30, 2010. In addition, we own 1,000,000 shares of Connacher Oil and Gas Limited common stock that were received as partial consideration upon our sale of our Montana refinery in 2006.

At times we also 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.

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

	Available-for-Sale Securities		
	Amortized Cost	Gross Unrealized Gain (In thousands)	Estimated Fair Value (Net Carrying Amount)
September 30, 2010			
Equity securities	\$ 610	\$ 561	\$ 1,171

December 31, 2009

Equity securities	\$ 604	\$ 619	\$ 1,223
-------------------	--------	--------	----------

- 17 -

Table of Contents

There were no sales or maturities of marketable securities for the nine months ended September 30, 2010. For the nine months ended September 30, 2009, we received \$220.3 million related to sales and maturities of marketable debt securities.

NOTE 8: Inventories

Inventory consists of the following components:

	September 30, 2010	December 31, 2009
	(In thousands)	
Crude oil	\$ 96,706	\$ 60,874
Other raw materials and unfinished products ⁽¹⁾	48,521	42,783
Finished products ⁽²⁾	223,033	155,925
Process chemicals ⁽³⁾	22,492	22,823
Repairs and maintenance supplies and other	23,263	21,108
Total inventory	\$ 414,015	\$ 303,513

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

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

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

NOTE 9: Environmental

Consistent with our accounting policy for environmental remediation costs, we expensed \$1.5 million and \$4.2 million for the nine months ended September 30, 2010 and 2009, respectively for environmental remediation obligations. The accrued environmental liability reflected in the consolidated balance sheets was \$29.2 million and \$30.4 million at September 30, 2010 and December 31, 2009, respectively, of which \$22.8 million and \$24.2 million, respectively, were classified as other long-term liabilities. These liabilities include \$22.3 million of environmental

obligations that we assumed in connection with our Tulsa Refinery west facility acquired on June 1, 2009 and our Tulsa Refinery east facility acquired on December 1, 2009. Costs of future expenditures for environmental remediation that are expected to be incurred over the next several years are not discounted to their present value.

NOTE 10: Debt

Credit Facilities

We have a \$400 million senior secured credit agreement expiring in March 2013 (the Holly Credit Agreement) with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. In June 2010, the agreement was upsized by \$30 million pursuant to the accordion feature. The Holly Credit Agreement 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, 2010. At September 30, 2010, we had no outstanding borrowings and outstanding letters of credit totaling \$84.3 million under the Holly Credit Agreement. At that level of usage, the unused commitment was \$315.7 million at September 30, 2010. We entered into an amendment to the Holly Credit Agreement on May 6, 2010 that changed certain financial covenants and provided other enhancements to the agreement.

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, 2010, HEP had outstanding borrowings totaling \$157 million under the HEP Credit Agreement, with unused borrowing capacity of \$143 million. The HEP Credit Agreement expires in August 2011, therefore, outstanding borrowings all of which were previously classified as long-term liabilities are currently classified as current liabilities. HEP intends to renew the HEP

- 18 -

Table of Contents

Credit Agreement prior to expiration and to continue to finance outstanding borrowings. Upon renewal, outstanding borrowings not designated for working capital purposes will be reclassified as long-term debt.

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets (presented parenthetically in our Consolidated Balance Sheets). Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. During the first quarter of 2010, our previous agreements 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 were terminated.

Holly Senior Notes Due 2017

In June 2009, we issued \$200 million in aggregate principal amount of the Holly 9.875% Senior Notes. A portion of the \$187.9 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 west facility purchase on June 1, 2009. In October 2009, we issued an additional \$100 million aggregate principal amount as an add-on offering to the Holly 9.875% Senior Notes that was used to fund the cash portion of our acquisition of Sinclair's 75,000 BPSD refinery located in Tulsa, Oklahoma.

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

HEP Senior Notes Due 2018 and 2015

In March 2010, HEP issued \$150 million in aggregate principal amount of HEP 8.25% Senior Notes maturing March 15, 2018. A portion of the \$147.5 million in net proceeds received was used to fund HEP's \$93 million purchase of certain storage assets at our Tulsa Refinery east facility and Navajo Refinery Lovington facility on March 31, 2010. Additionally, HEP used a portion to repay \$42 million in outstanding HEP Credit Agreement borrowings, with the remaining proceeds available for general partnership purposes, including working capital and capital expenditures.

The HEP 6.25% Senior Notes having an aggregate principal amount of \$185 million mature March 1, 2015 and are registered with the SEC. The HEP 6.25% Senior Notes and HEP 8.25% Senior Notes (collectively, the HEP Senior Notes) are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

Indebtedness under the HEP Senior Notes is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. However, any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. During the first quarter of 2010, our previous agreement to indemnify HEP's controlling partner to the extent it makes any payment in satisfaction of debt service due on up to \$35 million of the principal amount of the HEP 6.25% Senior Notes was terminated.

Table of Contents***Holly Financing Obligation***

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

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

	September 30, 2010	December 31, 2009
	(In thousands)	
Holly 9.875% Senior Notes		
Principal	\$ 300,000	\$ 300,000
Unamortized discount	(10,767)	(11,549)
	289,233	288,451
Holly financing obligation		
Principal	39,050	39,809
Total Holly long-term debt	328,283	328,260
HEP Credit Agreement	157,000	206,000
HEP 6.25% Senior Notes		
Principal	185,000	185,000
Unamortized discount	(11,620)	(13,593)
Unamortized premium dedesignated fair value hedge	1,531	1,791
	174,911	173,198
HEP 8.25% Senior Notes		
Principal	150,000	
Unamortized discount	(2,288)	
	147,712	
Total HEP debt	479,623	379,198
Less Credit Agreement borrowings classified as current liabilities	157,000	

Total HEP long-term debt	322,623	379,198
Total long-term debt	\$ 650,906	\$ 707,458

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

During the third quarter of 2010, we entered into two types of hedging transactions.

We entered into multiple gasoline price swap contracts relating to forecasted sales transactions of unleaded 87 gasoline produced at our Tulsa Refinery facilities in order to protect margins on winter grade gasoline. Winter grade gasoline specifications allow for the blending of butane as an additive. Since the cost of butane is subject to price risk (fluctuating prices), our refined product margins are exposed to the adverse affects of higher butane costs during winter months when demand for butane is generally higher and lower gasoline sales prices when demand for finished gasoline products is generally lower. To mitigate the effects of higher butane costs during

- 20 -

Table of Contents

winter months, we regularly purchase volumes of butane at more favorable prices during the summer season. Furthermore, in order to maintain a favorable spread between the cost of this butane and the ultimate sales price we receive on quantities of produced winter grade gasoline, we have entered into gasoline price swaps that effectively fix the sales price on forecasted sales totaling 135,000 barrels of unleaded 87 gasoline at a weighted average price of \$81.61 per barrel. These barrels will be ratably sold between September and December 2010, matching the terms of the swap contracts maturing between September and December 2010.

Additionally, we entered into natural gas price swap contracts relating to forecasted purchases of natural gas to be used in production at our refining facilities during the 2010-2011 winter season. Natural gas prices are subject to price risk (fluctuating prices), therefore, the profitability of our refinery operations is exposed to the adverse affects of higher natural gas prices during winter months when demand for natural gas is generally higher. In order to mitigate the effects of higher natural gas prices, we have entered into natural gas price swaps that effectively fix our purchase price on forecasted natural gas purchases aggregating 2,500,000 million British thermal units (MMBTU) (approximately 30% of our refineries projected winter season consumption) to be ratably purchased between November 2010 and March 2011 at a weighted-average cost of \$4.20 per MMBTU.

We have designated these commodity price swaps as cash flow hedges. Based on our assessment of effectiveness using the change in variable cash flows method, we have determined that our gasoline price swaps are effective in offsetting the variability in sales prices to be received on forecasted sales of finished gasoline inventory resulting from changes in gasoline reference prices. We have also determined that our natural gas price swaps are effective in offsetting the variability in prices to be paid on forecasted natural gas purchases resulting from changes in natural gas reference prices. Under hedge accounting, we adjust our cash flow hedges on a quarterly basis to fair value with offsetting fair value adjustments to accumulated other comprehensive income. Hedge effectiveness is measured by comparing the combined effects of amounts expected to be received or paid under these price swap contracts and prices to be received and paid under the forecasted transactions as discussed above against prestablished fixed prices. Any ineffectiveness is reclassified from accumulated other comprehensive income to cost of products sold. As of September 30, 2010, we have had no ineffectiveness on these cash flow hedges.

Interest Rate Risk Management

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

As of September 30, 2010, HEP has an interest rate swap that hedges its exposure to the cash flow risk caused by the effects of LIBOR changes on a \$155 million HEP Credit Agreement advance. This interest rate swap effectively converts \$155 million of LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 1.75%, which equaled an effective interest rate of 5.49% as of September 30, 2010. The maturity date of this swap contract is February 28, 2013.

HEP 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 this interest rate swap is effective in offsetting the variability in interest payments on the \$155 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 the swap against the expected future interest payments on the \$155 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of September 30, 2010, HEP had no ineffectiveness on its cash flow hedge.

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

Table of Contents

Additionally, HEP settled two interest rate swaps in the first quarter of 2010. HEP had an interest rate swap contract that effectively converted interest expense associated with \$60 million of the HEP 6.25% Senior Notes from fixed to variable rate debt (Variable Rate Swap). HEP had an additional interest rate swap contract that effectively unwound the effects of the Variable Rate Swap, converting \$60 million of the previously hedged long-term debt back to fixed rate debt (Fixed Rate Swap), effectively fixing interest at a 4.75% rate. Upon settlement of the Variable Rate and Fixed Rate Swaps, HEP received \$1.9 million and paid \$3.6 million, respectively.

For the nine months ended September 30, 2010, HEP recognized a \$1.5 million charge to interest expense as a result of fair value adjustments prior to settlement of these interest rate swaps in the first quarter of 2010. For the nine months ended September 30, 2009, fair value adjustments resulted in a \$0.3 million increase in interest expense.

HEP has a deferred hedge premium that relates to the application of hedge accounting to the Variable Rate Swap prior to its hedge de-designation in 2008. This deferred hedge premium having a balance of \$1.5 million at September 30, 2010, is being amortized as a reduction to interest expense over the remaining term of the HEP 6.25% Senior Notes. The following table presents balance sheet locations and related fair values of outstanding derivative instruments.

Derivative Instruments	Balance Sheet Location	Fair Value (Dollars in thousands)	Location of Offsetting Balance	Offsetting Amount
September 30, 2010				
<i>Derivatives designated as cash flow hedging instruments:</i>				
Variable-to-fixed commodity price swap contracts (forecasted volumes of gasoline sales)	Accrued liabilities	\$ 406	Accumulated other comprehensive loss	\$ 406
Variable-to-fixed commodity price swap contracts (forecasted volumes of natural gas purchases)	Accrued liabilities	738	Accumulated other comprehensive loss	738
		\$ 1,144		\$ 1,144
Variable-to-fixed interest rate swap contract (\$155 million LIBOR based debt interest payments)	Other long-term liabilities	\$ 11,825	Accumulated other comprehensive loss	\$ 11,825

December 31, 2009*Derivative designated as cash flow hedging instrument:*

Variable-to-fixed interest rate swap contract (\$171 million LIBOR based debt interest payments)	Other long-term liabilities	\$ 9,141	Accumulated other comprehensive loss	\$ 9,141
---	-----------------------------	----------	--------------------------------------	----------

Derivatives not designated as hedging instruments:

Fixed-to-variable interest rate swap contract (\$60 million of HEP 6.25% Senior Notes)	Other assets	\$ 2,294	Long-term debt	\$ 1,791 ⁽¹⁾
			Equity	503 ⁽²⁾
		\$ 2,294		\$ 2,294
Variable-to-fixed interest rate swap contract (\$60 million of HEP 6.25% Senior Notes)	Other long-term liabilities	\$ 2,555	Equity	\$ 2,555 ⁽²⁾

(1) Represents unamortized balance of dedesignated hedge premium.

(2) Represents prior year charges to interest expense.

Table of Contents**NOTE 12: Equity**

Changes to equity during the nine months ended September 30, 2010 are presented below:

	Holly Corporation Stockholders Equity	Noncontrolling Interest (In thousands)	Total Equity
Balance at December 31, 2009	\$ 619,039	\$ 588,742	\$ 1,207,781
Net income	89,245	19,557	108,802
Dividends	(23,981)		(23,981)
Distributions to noncontrolling interest holders		(36,139)	(36,139)
Other comprehensive loss	(660)	(2,804)	(3,464)
Contribution from joint venture partner		9,500	9,500
Issuance of common stock upon exercise of stock options	61		61
Tax benefit from stock options	199		199
Equity based compensation	6,044	1,770	7,814
Tax expense from equity based compensation arrangements	(1,512)		(1,512)
Purchase of HEP units for restricted grants		(2,276)	(2,276)
Purchase of treasury stock ⁽¹⁾	(1,308)		(1,308)
Balance at September 30, 2010	\$ 687,127	\$ 578,350	\$ 1,265,477

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

During the nine months ended September 30, 2010, we repurchased at market price from certain executives and employees 44,475 shares of our common stock at a cost of \$1.2 million. These purchases were made under the terms of restricted stock and performance share unit agreements to provide funds for the payment of payroll and income taxes due at the vesting of restricted shares in the case of officers and employees who did not elect to satisfy such taxes by other means.

NOTE 13: Other Comprehensive Income (Loss)

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

**Tax
Expense**

	Before-Tax	(Benefit) (In thousands)	After-Tax
Three Months Ended September 30, 2010			
Unrealized loss on available-for-sale securities	\$ (51)	\$ (20)	\$ (31)
Unrealized loss on hedging activities	(1,845)	(538)	(1,307)
Other comprehensive loss	(1,896)	(558)	(1,338)
Less other comprehensive loss attributable to noncontrolling interest	(461)		(461)
Other comprehensive loss attributable to Holly stockholders	\$ (1,435)	\$ (558)	\$ (877)
Three Months Ended September 30, 2009			
Unrealized gain on available-for-sale securities	\$ 234	\$ 91	\$ 143
Unrealized loss on hedging activities	(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 stockholders	\$ (444)	\$ (173)	\$ (271)
Nine Months Ended September 30, 2010			
Unrealized loss on available-for-sale securities	\$ (58)	\$ (24)	\$ (34)
Unrealized loss on hedging activities	(3,826)	(396)	(3,430)
Other comprehensive loss	(3,884)	(420)	(3,464)
Less other comprehensive loss attributable to noncontrolling interest	(2,804)		(2,804)
Other comprehensive loss attributable to Holly stockholders	\$ (1,080)	\$ (420)	\$ (660)

Table of Contents

	Before-Tax	Tax Expense (Benefit)	After-Tax
		(In thousands)	
Nine Months Ended September 30, 2009			
Unrealized gain on available-for-sale securities	\$ 212	\$ 82	\$ 130
Unrealized gain on hedging activities	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 stockholders	\$ 1,441	\$ 560	\$ 881

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:

	September 30, 2010	December 31, 2009
	(In thousands)	
Pension obligation adjustment	\$ (21,774)	\$ (21,774)
Retiree medical obligation adjustment	(1,749)	(1,749)
Unrealized gain on available-for-sale securities	345	379
Unrealized loss on hedging activities, net of noncontrolling interest	(3,182)	(2,556)
Accumulated other comprehensive loss	\$ (26,360)	\$ (25,700)

NOTE 14: 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.

The retirement plan is closed to employees hired subsequent to 2006 and not covered by collective bargaining agreements with labor unions. To the extent a non-union 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.

Effective July 1, 2010, the retirement plan was closed to all new employees covered by collective bargaining agreements with labor unions. To the extent a union employee was hired prior to July 1, 2010, the employee may elect to continue their participation in the retirement plan or to participate in our defined contribution plan whereby their participation in future benefits of the retirement plan will be frozen.

The net periodic pension expense consisted of the following components:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	(In thousands)			
Service cost benefit earned during the period	\$ 1,149	\$ 1,158	\$ 3,446	\$ 3,236

Edgar Filing: HOLLY CORP - Form 10-Q

Interest cost on projected benefit obligations	1,288	1,287	3,865	3,707
Expected return on plan assets	(1,144)	(959)	(3,432)	(2,883)
Amortization of prior service cost	98	98	293	293
Amortization of net loss	549	1,024	1,647	2,861
Net periodic pension expense	\$ 1,940	\$ 2,608	\$ 5,819	\$ 7,214

The expected long-term annual rate of return on plan assets is 8.5%. This rate was used in measuring 2010 and 2009 net periodic benefit cost. We contributed \$5.4 million to the retirement plan in July 2010.

- 24 -

Table of Contents**NOTE 15: Contingencies**

In May 2007, the United States Court of Appeals for the District of Columbia Circuit (Court of Appeals) issued its decision on petitions for review, brought by us and other parties, concerning rulings by the FERC in proceedings brought by us and other parties against SFPP, L.P. (SFPP). These proceedings relate to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. We are one of several refiners that regularly utilize the SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona on SFPP's East Line. The Court of Appeals in its May 2007 decision approved a FERC position, which is adverse to us, on the treatment of income taxes in the calculation of allowable rates for pipelines operated by partnerships and ruled in our favor on an issue relating to our rights to reparations when it is determined that certain tariffs we paid to SFPP in the past were too high. The case was remanded to FERC and consolidated with other cases that together addressed SFPP's rates for the period from January 1992 through May 2006. In 2003 we received an initial payment of \$15.3 million from SFPP as reparations for the period from 1992 through July 2000. On April 16, 2010, a settlement among us, SFPP, and other shippers was filed with FERC for its approval. FERC approved the settlement on May 28, 2010. Pursuant to the settlement, we received an additional settlement payment of \$8.6 million. This settlement finally resolves the amount of additional payments SFPP owes us for the period January 1992 through May 2006. We and other shippers also engaged in settlement discussions with SFPP relating to East Line service in the FERC proceedings that address periods after May 2006. A partial settlement covering the period June 2006 through November 2007, which became final in February 2008, resulted in a payment from SFPP to us of \$1.3 million in April 2008. On October 22, 2008, we and other shippers jointly filed at the FERC with SFPP a settlement covering the period from December 2008 through November 2010. The FERC approved the settlement on January 29, 2009. The settlement reduced SFPP's current rates and required SFPP to make additional payments to us of \$2.9 million, which were received on May 18, 2009.

On June 2, 2009, SFPP notified us that it would terminate the October 22, 2008 settlement, as provided under the settlement, effective August 31, 2009. On July 31, 2009, SFPP filed substantial rate increases for East Line service to become effective September 1, 2009. We and several other shippers filed protests at the FERC challenging the rate increase and asking the FERC to suspend the effectiveness of the increased rates. On August 31, 2009, the FERC issued an order suspending the effective date of the rate increase until January 1, 2010, on which date the rate increase was placed into effect subject to refund, and setting the rate increase for a full evidentiary hearing to be held in 2010. SFPP subsequently reduced its rates for the East Line service, effective September 1, 2010. The rates placed in effect on January 1, 2010, and the lower rates put into effect on September 1, 2010, remain subject to refund subject to the outcome of the evidentiary hearing. We are not in a position to predict the ultimate outcome of the rate proceeding. We are a party to various other litigation and proceedings which we believe, based on advice of counsel, will not either individually or in the aggregate have a materially adverse impact on our financial condition, results of operations or cash flows.

NOTE 16: Segment Information

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

The Refining segment includes the operations of our Navajo, Woods Cross, and Tulsa Refineries and Holly Asphalt and involves the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel and jet fuel. These petroleum products are primarily marketed in the Southwest, Rocky Mountain and Mid-Continent regions of the United States and northern Mexico. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refinery that are marketed

Table of Contents

throughout North America and are distributed in Central and South America. Holly Asphalt manufactures and markets asphalt and asphalt products in Arizona, New Mexico, Texas and northern Mexico.

HEP, a consolidated VIE, owns and operates a system of petroleum product and crude gathering pipelines in Texas, New Mexico, Oklahoma and Utah, distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho, and Washington and refinery tankage in New Mexico, Utah and Oklahoma. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines, by leasing certain pipeline capacity to Alon USA, Inc., by charging fees for terminalling refined products and other hydrocarbons and storing and providing other services at its storage tanks and terminals. The HEP segment also includes a 25% interest in SLC Pipeline that services refineries in the Salt Lake City, Utah area. Revenues from the HEP segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations. Our revaluation of HEP's assets and liabilities at March 1, 2008 (date of reconsolidation) resulted in basis adjustments to our consolidated HEP balances. Therefore, our reported amounts for the HEP segment may not agree to amounts reported in HEP's periodic public filings. The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2009.

	Refining	HEP⁽¹⁾	Corporate and Other	Consolidations and Eliminations	Consolidated Total
			(In thousands)		
Three Months Ended September 30, 2010					
Sales and other revenues	\$ 2,081,709	\$ 46,558	\$ 100	\$ (37,379)	\$ 2,090,988
Depreciation and amortization	\$ 21,274	\$ 6,830	\$ 1,329	\$ (295)	\$ 29,138
Income (loss) from operations	\$ 100,111	\$ 24,588	\$ (16,652)	\$ (429)	\$ 107,618
Capital expenditures	\$ 47,623	\$ 3,567	\$ 219	\$	\$ 51,409
Three Months Ended September 30, 2009					
Sales and other revenues	\$ 1,476,304	\$ 40,805	\$ 229	\$ (28,847)	\$ 1,488,491
Depreciation and amortization	\$ 16,527	\$ 5,974	\$ 1,525	\$	\$ 24,026
Income (loss) from operations	\$ 50,584	\$ 21,880	\$ (16,183)	\$ (699)	\$ 55,582
Capital expenditures	\$ 54,946	\$ 5,652	\$ 2,030	\$	\$ 62,628
Nine Months Ended September 30, 2010					
Sales and other revenues	\$ 6,086,243	\$ 132,730	\$ 317	\$ (108,152)	\$ 6,111,138
Depreciation and amortization	\$ 62,599	\$ 20,822	\$ 3,183	\$ (885)	\$ 85,719
Income (loss) from operations	\$ 200,080	\$ 65,737	\$ (47,529)	\$ (1,250)	\$ 217,038
Capital expenditures	\$ 118,387	\$ 8,054	\$ 1,498	\$	\$ 127,939

**Nine Months Ended
September 30, 2009**

Sales and other revenues	\$ 3,136,017	\$ 108,136	\$ 423	\$ (72,277)	\$ 3,172,299
Depreciation and amortization	\$ 46,310	\$ 17,794	\$ 5,263	\$	\$ 69,367
Income (loss) from operations	\$ 121,703	\$ 53,287	\$ (43,467)	\$ (699)	\$ 130,824
Capital expenditures	\$ 215,613	\$ 27,478	\$ 2,930	\$	\$ 246,021

September 30, 2010

Cash, cash equivalents and investments in marketable securities	\$	\$ 706	\$ 272,385	\$	\$ 273,091
Total assets	\$ 2,210,374	\$ 660,727	\$ 555,419	\$ (29,141)	\$ 3,397,379

December 31, 2009

Cash, cash equivalents and investments in marketable securities	\$	\$ 2,508	\$ 123,311	\$	\$ 125,819
Total assets	\$ 2,142,317	\$ 641,775	\$ 392,007	\$ (30,160)	\$ 3,145,939

(1) HEP segment revenues from external customers were \$9.2 million and \$12.4 million for the three months ended September 30, 2010 and 2009, respectively, and \$24.7 million and \$36.4 million for the nine months ended September 30, 2010 and 2009, respectively.

Table of Contents

NOTE 17: Supplemental Guarantor/Non-Guarantor Financial Information

Our obligations under the Holly 9.875% Senior Notes have been jointly and severally guaranteed by the substantial majority of our existing and future restricted subsidiaries (Guarantor Restricted Subsidiaries). These guarantees are full and unconditional. HEP, in which we have a 34% ownership interest, and its subsidiaries (collectively,

Non-Guarantor Non-Restricted Subsidiaries), and certain of our other subsidiaries (Non-Guarantor Restricted Subsidiaries) have not guaranteed these obligations.

The following financial information presents condensed consolidating balance sheets, statements of income, and statements of cash flows of 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.

- 27 -

Table of Contents**Condensed Consolidating Balance Sheet**

September 30, 2010	Parent	Non-Guarantor		Eliminations	Non-Guarantor		Elimination	Consolidated
		Guarantor Restricted Subsidiaries	Restricted Subsidiaries		Holly Corp. Before Non-Restricted Consolidation of HEP Segment)	Subsidiaries (HEP)		
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 265,969	\$ (1,557)	\$ 6,802	\$	\$ 271,214	\$ 706	\$	\$ 271,920
Marketable securities		1,171			1,171			1,171
Accounts receivable	(6,957)	724,081			717,124	21,319	(19,972)	718,471
Intercompany accounts receivable (payable)	(1,385,596)	988,726	396,870					
Inventories		413,818			413,818	197		414,015
Income taxes receivable	26,269				26,269			26,269
Prepayments and other assets	26,704	19,040			45,744	924	(3,407)	43,261
Total current assets	(1,073,611)	2,145,279	403,672		1,475,340	23,146	(23,379)	1,475,107
Properties and equipment, net	17,971	1,004,329	199,203		1,221,503	482,786	(6,906)	1,697,383
Investment in subsidiaries	2,227,676	545,056	(393,379)	(2,379,353)				
Intangibles and other assets	9,352	59,599			68,951	154,794	1,144	224,889
Total assets	\$ 1,181,388	\$ 3,754,263	\$ 209,496	\$ (2,379,353)	\$ 2,765,794	\$ 660,726	\$ (29,141)	\$ 3,397,379
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	\$ 7,348	\$ 1,043,545	\$ 7,570	\$	\$ 1,058,463	\$ 5,786	\$ (19,972)	\$ 1,044,277
Accrued liabilities	33,644	22,591	492		56,727	15,752	(3,407)	69,072
Credit agreement borrowings						157,000		157,000
Total current liabilities	40,992	1,066,136	8,062		1,115,190	178,538	(23,379)	1,270,349

Edgar Filing: HOLLY CORP - Form 10-Q

Long-term debt	289,233	56,085			345,318	322,623	(17,035)	650,906
Non-current liabilities	38,098	30,338			68,436	12,534		80,970
Deferred income taxes	124,640	(239)	325		124,726		4,951	129,677
Distributions in excess of inv in HEP		374,267			374,267		(374,267)	
Equity Holly Corporation	688,425	2,227,676	201,109	(2,428,785)	688,425	147,031	(148,329)	687,127
Equity noncontrolling interest				49,432	49,432		528,918	578,350
Total liabilities and equity	\$ 1,181,388	\$ 3,754,263	\$ 209,496	\$ (2,379,353)	\$ 2,765,794	\$ 660,726	\$ (29,141)	\$ 3,397,379

Condensed Consolidating Balance Sheet

December 31, 2009	Parent	Non-Guarantor		Eliminations	Non-Guarantor Holly Corp. Before Non-Restricted Consolidation of Subsidiaries (HEP Segment)		Eliminations	Consolidated
		Guarantor Restricted	Guarantor Restricted		HEP	Segment		
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 127,560	\$ (12,477)	\$ 7,005	\$	\$ 122,088	\$ 2,508	\$	\$ 124,596
Marketable securities		1,223			1,223			1,223
Accounts receivable	973	759,140			760,113	18,767	(16,425)	762,455
Intercompany accounts receivable (payable)	(1,134,296)	817,647	316,649					
Inventories		303,348			303,348	165		303,513
Income taxes receivable	38,071	1			38,072			38,072
Prepayments and other assets	24,940	29,018			53,958	574	(3,575)	50,957
Current assets of discontinued ops						2,195		2,195
Total current assets	(942,752)	1,897,900	323,654		1,278,802	24,209	(20,000)	1,283,011
Properties and equipment, net	21,918	1,005,422	155,413		1,182,753	458,521	(11,304)	1,629,970
Investment in subsidiaries	2,010,510	435,970	(314,973)	(2,131,507)				

Edgar Filing: HOLLY CORP - Form 10-Q

Intangibles and other assets	8,752	64,017			72,769	159,045	1,144	232,958
Total assets	\$ 1,098,428	\$ 3,403,309	\$ 164,094	\$ (2,131,507)	\$ 2,534,324	\$ 641,775	\$ (30,160)	\$ 3,145,939
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	\$ 8,968	\$ 974,177	\$ 2,224	\$	\$ 985,369	\$ 6,211	\$ (16,425)	\$ 975,155
Accrued liabilities	23,752	15,477	709		39,938	13,594	(3,575)	49,957
Total current liabilities	32,720	989,654	2,933		1,025,307	19,805	(20,000)	1,025,112
Long-term debt	288,451	39,809			328,260	379,198		707,458
Non-current liabilities	37,859	48,137			85,996	12,349	(17,342)	81,003
Deferred income taxes	119,127	229	278		119,634		4,951	124,585
Distributions in excess of inv in HEP		314,970			314,970		(314,970)	
Equity Holly Corporation	620,271	2,010,510	160,883	(2,171,393)	620,271	230,423	(231,655)	619,039
Equity noncontrolling interest				39,886	39,886		548,856	588,742
Total liabilities and equity	\$ 1,098,428	\$ 3,403,309	\$ 164,094	\$ (2,131,507)	\$ 2,534,324	\$ 641,775	\$ (30,160)	\$ 3,145,939

- 28 -

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

Three Months Ended	Non-Guarantor				Non-Guarantor Holly Corp. Before Non-Restricted Consolidation of Subsidiaries (HEP			Consolidated
	Parent	Guarantor Restricted Subsidiaries	Restricted Subsidiaries	Eliminations	HEP	Segment Eliminations	Consolidated	
September 30, 2010								
	(In thousands)							
Sales and other revenues	\$ 100	\$ 2,081,707	\$ 2	\$	\$ 2,081,809	\$ 46,558	\$ (37,379)	\$ 2,090,988
Operating costs and expenses:								
Cost of products sold		1,843,464	103		1,843,567		(36,523)	1,807,044
Operating expenses		116,763			116,763	13,632	(132)	130,263
General and administrative expenses	15,538	(121)			15,417	1,508		16,925
Depreciation and amortization	925	21,499	179		22,603	6,830	(295)	29,138
Total operating costs and expenses	16,463	1,981,605	282		1,998,350	21,970	(36,950)	1,983,370
Income (loss) from operations	(16,363)	100,102	(280)		83,459	24,588	(429)	107,618
Other income (expense):								
Equity in earnings of subsidiaries and joint venture	106,360	7,918	8,117	(114,278)	8,117	570	(8,117)	570
Interest income (expense)	(7,294)	(1,660)	11		(8,943)	(8,979)	618	(17,304)
	99,066	6,258	8,128	(114,278)	(826)	(8,409)	(7,499)	(16,734)
Income from continuing operations before income taxes	82,703	106,360	7,848	(114,278)	82,633	16,179	(7,928)	90,884
Income tax provision	31,418				31,418	76		31,494
Net income	51,285	106,360	7,848	(114,278) (70)	51,215 (70)	16,103	(7,928) 8,283	59,390 8,213

Less net income
attributable to
noncontrolling interest

Net income
attributable to Holly
Corporation
stockholders

\$ 51,285 \$ 106,360 \$ 7,848 \$ (114,208) \$ 51,285 \$ 16,103 \$ (16,211) \$ 51,177

Condensed Consolidating Statement of Income

Three Months Ended	Non-Guarantor		Non-Guarantor		Non-Guarantor			Consolidated
	Parent	Restricted	Restricted	Eliminations	Holly Corp. Before Non-Restricted Consolidation of Subsidiaries (HEP Segment)	Eliminations		
September 30, 2009					HEP			
								(In thousands)
Sales and other revenues	\$ 229	\$ 1,476,304	\$	\$	\$ 1,476,533	\$ 40,805	\$ (28,847)	\$ 1,488,491
Operating costs and expenses:								
Cost of products sold		1,323,329	129		1,323,458		(28,020)	1,295,438
Operating expenses		85,742			85,742	11,103	(128)	96,717
General and administrative expenses	15,056	(241)	65		14,880	1,848		16,728
Depreciation and amortization	987	16,748	317		18,052	5,974		24,026
Total operating costs and expenses	16,043	1,425,578	511		1,442,132	18,925	(28,148)	1,432,909
Income (loss) from operations	(15,814)	50,726	(511)		34,401	21,880	(699)	55,582
Other income (expense):								
Equity in earnings of subsidiaries and joint venture	59,968	7,744	8,118	(67,712)	8,118	646	(8,118)	646
Interest income (expense)	(5,802)	175	11		(5,616)	(6,979)	419	(12,176)
SLC Pipeline acquisition costs						1,144	(1,144)	

Edgar Filing: HOLLY CORP - Form 10-Q

Tulsa Refinery acquisition costs	(1,701)	1,323			(378)			(378)
	52,465	9,242	8,129	(67,712)	2,124	(5,124)	(8,908)	(11,908)
Income from continuing operations before income taxes	36,651	59,968	7,618	(67,712)	36,525	16,756	(9,607)	43,674
Income tax provision	13,566				13,566	100	(169)	13,497
Income from continuing operations	23,085	59,968	7,618	(67,712)	22,959	16,656	(9,438)	30,177
Income from discontinued operations						1,070	(169)	901
Net income	23,085	59,968	7,618	(67,712)	22,959	17,726	(9,607)	31,078
Less net income attributable to noncontrolling interest				(126)	(126)		7,720	7,594
Net income attributable to Holly Corporation stockholders	\$ 23,085	\$ 59,968	\$ 7,618	\$ (67,586)	\$ 23,085	\$ 17,726	\$ (17,327)	\$ 23,484

- 29 -

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

Nine Months Ended	Non-Guarantor		Non-Guarantor		Holly Corp. Before Non-Restricted		Consolidation of Subsidiaries (HEP Segment) Elimination		Consolidated
	Parent	Guarantor Restricted Subsidiaries	Restricted Subsidiaries	Eliminations	HEP	HEP	Segment)	Elimination	
September 30, 2010									
Sales and other revenues	\$ 317	\$ 6,086,241	\$ 2	\$	\$ 6,086,560	\$ 132,730	\$ (108,152)	\$ 6,111,138	
Operating costs and expenses:									
Cost of products sold		5,484,647	115		5,484,762		(105,642)	5,379,120	
Operating expenses		338,826			338,826	40,187	(375)	378,638	
General and administrative expenses	44,339	300			44,639	5,984		50,623	
Depreciation and amortization	2,796	63,278	(292)		65,782	20,822	(885)	85,719	
Total operating costs and expenses	47,135	5,887,051	(177)		5,934,009	66,993	(106,902)	5,894,100	
Income (loss) from operations	(46,818)	199,190	179		152,551	65,737	(1,250)	217,038	
Other income (expense):									
Equity in earnings of subsidiaries and joint venture	216,349	21,217	21,053	(237,566)	21,053	1,595	(21,053)	1,595	
Interest income (expense)	(25,964)	(4,058)	31		(29,991)	(27,192)	1,828	(55,355)	
	190,385	17,159	21,084	(237,566)	(8,938)	(25,597)	(19,225)	(53,760)	
Income from continuing operations before income taxes	143,567	216,349	21,263	(237,566)	143,613	40,140	(20,475)	163,278	
Income tax provision	54,260				54,260	216		54,476	

Edgar Filing: HOLLY CORP - Form 10-Q

Net income	89,307	216,349	21,263	(237,566)	89,353	39,924	(20,475)	108,802
Less net income attributable to noncontrolling interest				46	46		19,511	19,557
Net income attributable to Holly Corporation stockholders	\$ 89,307	\$ 216,349	\$ 21,263	\$(237,612)	\$ 89,307	\$ 39,924	\$(39,986)	\$ 89,245

Condensed Consolidating Statement of Income

Nine Months Ended	Non-Guarantor				Non-Guarantor Holly Corp. Before Non-Restricted Consolidation of Subsidiaries (HEP Segment)			Consolidated
	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HEP	Eliminations	Consolidated	
September 30, 2009								
Sales and other revenues	\$ 423	\$ 3,135,959	\$ 58	\$	\$ 3,136,440	\$ 108,136	\$(72,277)	\$ 3,172,299
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	32,076	(382)	241,518
General and administrative expenses	37,655	873	65		38,593	4,979		43,572
Depreciation and amortization	2,924	47,698	951		51,573	17,794		69,367
Total operating costs and expenses	40,579	3,016,226	1,399		3,058,204	54,849	(71,578)	3,041,475
Income (loss) from operations	(40,156)	119,733	(1,341)		78,236	53,287	(699)	130,824
Other income (expense):								
Equity in earnings of subsidiaries and joint venture	140,429	20,367	21,367	(160,796)	21,367	1,374	(21,432)	1,309
	(8,154)	2,317	33		(5,804)	(17,903)	419	(23,288)

Edgar Filing: HOLLY CORP - Form 10-Q

Interest income (expense)								
SLC Pipeline acquisition costs						(1,356)	1,356	
Tulsa Refinery acquisition costs		(1,988)		(1,988)				(1,988)
	132,275	20,696	21,400	(160,796)	13,575	(17,885)	(19,657)	(23,967)
Income from continuing operations before income taxes	92,119	140,429	20,059	(160,796)	91,811	35,402	(20,356)	106,857
Income tax provision	35,069				35,069	266	(667)	34,668
Income from continuing operations	57,050	140,429	20,059	(160,796)	56,742	35,136	(19,689)	72,189
Income from discontinued operations						4,105	(667)	3,438
Net income	57,050	140,429	20,059	(160,796)	56,742	39,241	(20,356)	75,627
Less net income attributable to noncontrolling interest				(308)	(308)		15,901	15,593
Net income attributable to Holly Corporation stockholders	\$ 57,050	\$ 140,429	\$ 20,059	\$ (160,488)	\$ 57,050	\$ 39,241	\$ (36,257)	\$ 60,034

- 30 -

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

Nine Months Ended September 30, 2010	Non-Guarantor Holly Corp. Non-Guarantor Before Non-Restricted Guarantor Consolidation Restricted Restricted of Subsidiaries (HEP)						Consolidated
	Parent	Subsidiaries	Subsidiaries	HEP	Segment	Elimination	
	(In thousands)						
Cash flows from operating activities	\$ 168,984	\$ 22,377	\$ 5,294	\$ 196,655	\$ 66,129	\$ (26,816)	\$ 235,968
Cash flows from investing activities							
Additions to properties, plants and equipment Holly	(1,498)	(74,890)	(43,497)	(119,885)			(119,885)
Additions to properties, plants and equipment HEP					(43,580)	35,526	(8,054)
Proceeds from sale of assets		39,040		39,040		(39,040)	
	(1,498)	(35,850)	(43,497)	(80,845)	(43,580)	(3,514)	(127,939)
Cash flows from financing activities							
Net repayments under credit agreements HEP					(49,000)		(49,000)
Proceeds from issuance of senior notes HEP					147,540		147,540
Repayments under financing obligation Holly		(1,067)		(1,067)		307	(760)
Purchase of treasury stock	(1,308)			(1,308)			(1,308)
Contribution from joint venture partner		(28,500)	38,000	9,500			9,500
Dividends	(23,889)			(23,889)			(23,889)
Purchase price in excess of transferred basis in assets		53,960		53,960	(57,474)	3,514	
Distributions to noncontrolling interest					(62,648)	26,509	(36,139)
Excess tax expense from equity based compensation	(1,313)			(1,313)			(1,313)
Deferred financing costs	(2,628)			(2,628)	(493)		(3,121)
Purchase of units for HEP restricted grants					(2,276)		(2,276)
Other	61			61			61
	(29,077)	24,393	38,000	33,316	(24,351)	30,330	39,295
Cash and cash equivalents							
Increase (decrease) for the period	138,409	10,920	(203)	149,126	(1,802)		147,324
Beginning of period	127,560	(12,477)	7,005	122,088	2,508		124,596

End of period \$ 265,969 \$ (1,557) \$ 6,802 \$ 271,214 \$ 706 \$ 271,920

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2009	Parent	Subsidiaries	Non-	Holly	Non-Guarantor	Elimination	Consolidated
			Guarantor	Corp.	Before Non-Restricted		
			Restricted	Consolidation	of	Subsidiaries	
			Subsidiaries	of	Subsidiaries	(HEP	
				HEP	Segment)	Elimination)	
				(In thousands)			
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)	(172,304)	(43,309)	(218,543)			(218,543)
Additions to properties, plants and equipment HEP					(73,478)	46,000	(27,478)
Acquisition of Tulsa Refinery west facility Holly		(157,814)		(157,814)			(157,814)
Investment in SLC Pipeline HEP					(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
Proceeds from sales of assets		34,200		34,200		(34,200)	
	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 Holly	187,925			187,925			187,925
Net borrowings under credit agreement HEP					45,000		45,000
Proceeds from issuance of common units HEP					58,355		58,355
Purchase of treasury stock	(1,214)			(1,214)			(1,214)
Contribution from joint venture partner		(34,950)	48,600	13,650			13,650
Dividends	(22,569)			(22,569)			(22,569)
Distributions to noncontrolling interest					(44,993)	21,634	(23,359)
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)
	159,986	(18,703)	48,600	189,883	52,971	10,162	253,016
Cash and cash equivalents							

Edgar Filing: HOLLY CORP - Form 10-Q

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

- 31 -

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 or its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person. For periods after our reconsolidation of Holly Energy Partners, L.P. (HEP) effective March 1, 2008, the words we, our, ours and us generally include HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation with certain exceptions where there are transactions or obligations between HEP and Holly Corporation or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of 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 consisting of refinery facilities in Artesia and Lovington, New Mexico (collectively, the Navajo Refinery), Woods Cross, Utah (the Woods Cross Refinery) and two refinery facilities in Tulsa, Oklahoma (collectively, operated as the Tulsa Refinery). As of September 30, 2010, our refineries had a combined crude capacity of 256,000 BPSD. Our profitability depends largely on the spread between market prices for refined petroleum products and crude oil prices. At September 30, 2010, we also owned a 34% interest in HEP (including the 2% general partner interest) which owns and operates pipeline and terminalling assets, and owns a 25% interest in SLC Pipeline LLC (the SLC Pipeline).

Our principal source of revenue is from the sale of high value light products such as gasoline, diesel fuel, jet fuel and asphalt products in markets in the Southwest, Rocky Mountain and Mid-Continent regions of the United States and northern Mexico. We also produce specialty lubricant products that are marketed throughout North America and are distributed in Central and South America. For the nine months ended September 30, 2010, sales and other revenues were \$6,111.1 million and net income attributable to Holly Corporation stockholders was \$89.2 million. For the nine months ended September 30, 2009, sales and other revenues from continuing operations were \$3,172.3 million and net income attributable to Holly Corporation stockholders was \$60 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, 2010 were \$5,894.1 million compared to \$3,041.5 million for the nine months ended September 30, 2009.

On June 1, 2009, we acquired an 85,000 BPSD refinery located in Tulsa, Oklahoma (the Tulsa Refinery west facility) from an affiliate of Sunoco, Inc. (Sunoco) for \$157.8 million in cash, including crude oil, refined product and other inventories valued at \$92.8 million. 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 December 1, 2009, we acquired a 75,000 BPSD refinery that is also located in Tulsa, Oklahoma (the Tulsa Refinery east facility) from an affiliate of Sinclair Oil Company (Sinclair) for \$183.3 million, including crude oil, refined product and other inventories valued at \$46.4 million. The refinery produces gasoline, diesel fuel and jet fuel products and also serves markets in the Mid-Continent region of the United States. We are in the process of integrating the operations of both Tulsa Refinery facilities (collectively, the Tulsa Refinery). Upon completion, the Tulsa Refinery will have an integrated crude processing rate of 125,000 BPSD.

Separately, HEP, also a party to the December 1, 2009 transaction with Sinclair, acquired certain logistics and storage assets located at our Tulsa Refinery east facility. See Note 3 Holly Energy Partners to the Consolidated Financial Statements under Item 1 for additional information on this transaction as well as HEP's 2010 and 2009 asset acquisitions from us.

Also on December 1, 2009, HEP sold its 70% interest in Rio Grande Pipeline Company (Rio Grande) to a subsidiary of Enterprise Products Partners LP for \$35 million. Results of operations of Rio Grande are presented in discontinued operations.

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

	Three Months Ended		Change from 2009	
	2010	September 30, 2009	Change	Percent
	(In thousands, except per share data)			
Sales and other revenues	\$ 2,090,988	\$ 1,488,491	\$ 602,497	40.5%
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	1,807,044	1,295,438	511,606	39.5
Operating expenses (exclusive of depreciation and amortization)	130,263	96,717	33,546	34.7
General and administrative expenses (exclusive of depreciation and amortization)	16,925	16,728	197	1.2
Depreciation and amortization	29,138	24,026	5,112	21.3
Total operating costs and expenses	1,983,370	1,432,909	550,461	38.4
Income from operations	107,618	55,582	52,036	93.6
Other income (expense):				
Equity in earnings of SLC Pipeline	570	646	(76)	(11.8)
Interest income	64	231	(167)	(72.3)
Interest expense	(17,368)	(12,407)	(4,961)	40.0
Tulsa refinery acquisition costs		(378)	378	(100.0)
	(16,734)	(11,908)	(4,826)	40.5
Income from continuing operations before income taxes	90,884	43,674	47,210	108.1
Income tax provision	31,494	13,497	17,997	133.3
Income from continuing operations	59,390	30,177	29,213	96.8
Income from discontinued operations, net of taxes of \$182		901	(901)	(100.0)
Net income	59,390	31,078	28,312	91.1
Less net income attributable to noncontrolling interest	8,213	7,594	619	8.2
Net income attributable to Holly Corporation stockholders	\$ 51,177	\$ 23,484	\$ 27,693	117.9%
Earnings attributable to Holly Corporation stockholders:				

Edgar Filing: HOLLY CORP - Form 10-Q

Income from continuing operations	\$ 51,177	\$ 23,213	\$ 27,964	120.5%
Income from discontinued operations		271	(271)	(100.0)
Net income	\$ 51,177	\$ 23,484	\$ 27,693	117.9%
Earnings per share attributable to Holly Corporation stockholders basic:				
Income from continuing operations	\$ 0.96	\$ 0.46	\$ 0.50	108.7%
Income from discontinued operations		0.01	(0.01)	(100.0)
Net income	\$ 0.96	\$ 0.47	\$ 0.49	104.3%
Earnings per share attributable to Holly Corporation stockholders diluted:				
Income from continuing operations	\$ 0.96	\$ 0.46	\$ 0.50	108.7%
Income from discontinued operations		0.01	(0.01)	(100.0)
Net income	\$ 0.96	\$ 0.47	\$ 0.49	104.3%
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$	%
Average number of common shares outstanding:				
Basic	53,210	50,244	2,966	5.9%
Diluted	53,567	50,327	3,240	6.4%
	- 33 -			

Table of Contents

	Nine Months Ended		Change from 2009	
	2010	2009	Change	Percent
	(In thousands, except per share data)			
Sales and other revenues	\$ 6,111,138	\$ 3,172,299	\$ 2,938,839	92.6%
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	5,379,120	2,687,018	2,692,102	100.2
Operating expenses (exclusive of depreciation and amortization)	378,638	241,518	137,120	56.8
General and administrative expenses (exclusive of depreciation and amortization)	50,623	43,572	7,051	16.2
Depreciation and amortization	85,719	69,367	16,352	23.6
Total operating costs and expenses	5,894,100	3,041,475	2,852,625	93.8
Income from operations	217,038	130,824	86,214	65.9
Other income (expense):				
Equity in earnings of SLC Pipeline	1,595	1,309	286	21.8
Interest income	758	2,561	(1,803)	(70.4)
Interest expense	(56,113)	(25,849)	(30,264)	117.1
Tulsa refinery acquisition costs		(1,988)	1,988	(100.0)
	(53,760)	(23,967)	(29,793)	124.3
Income from continuing operations before income taxes	163,278	106,857	56,421	52.8
Income tax provision	54,476	34,668	19,808	57.1
Income from continuing operations	108,802	72,189	36,613	50.7
Income from discontinued operations, net of taxes of \$718		3,438	(3,438)	(100.0)
Net income	108,802	75,627	33,175	43.9
Less net income attributable to noncontrolling interest	19,557	15,593	3,964	25.4
Net income attributable to Holly Corporation stockholders	\$ 89,245	\$ 60,034	\$ 29,211	48.7%
Earnings attributable to Holly Corporation stockholders:				
Income from continuing operations	\$ 89,245	\$ 59,014	\$ 30,231	51.2%
Income from discontinued operations		1,020	(1,020)	(100.0)

Edgar Filing: HOLLY CORP - Form 10-Q

Net income	\$ 89,245	\$ 60,034	\$ 29,211	48.7%
Earnings per share attributable to Holly Corporation stockholders basic:				
Income from continuing operations	\$ 1.68	\$ 1.18	\$ 0.50	42.4%
Income from discontinued operations		0.02	(0.02)	(100.0)
Net income	\$ 1.68	\$ 1.20	\$ 0.48	40.0%
Earnings per share attributable to Holly Corporation stockholders diluted:				
Income from continuing operations	\$ 1.67	\$ 1.17	\$ 0.50	42.7%
Income from discontinued operations		0.02	(0.02)	(100.0)
Net income	\$ 1.67	\$ 1.19	\$ 0.48	40.3%
Cash dividends declared per common share	\$ 0.45	\$ 0.45	\$	%
Average number of common shares outstanding:				
Basic	53,172	50,153	3,019	6.0%
Diluted	53,531	50,272	3,259	6.5%

- 34 -

Table of Contents**Balance Sheet Data (Unaudited)**

	September 30, 2010	December 31, 2009
	(In thousands)	
Cash, cash equivalents and investments in marketable securities	\$ 273,091	\$ 125,819
Working capital ⁽¹⁾	\$ 204,758	\$ 257,899
Total assets	\$ 3,397,379	\$ 3,145,939
Long-term debt	\$ 650,906	\$ 707,458
Total equity	\$ 1,265,477	\$ 1,207,781

(1) HEP's credit agreement expires in August 2011; therefore, working capital at September 30, 2010 reflects \$157 million of credit agreement borrowings that are classified as current liabilities. HEP intends to renew its credit agreement prior to expiration and to continue to finance outstanding borrowings. Upon renewal, outstanding borrowings not designated for working capital purposes will be reclassified as long-term debt. Excluding HEP's \$157 million in credit agreement borrowings, working capital was \$361.8 million

at
September 30,
2010.

Other Financial Data (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(In thousands)			
Net cash provided by operating activities	\$ 197,622	\$ 38,102	\$ 235,968	\$ 179,652
Net cash used for investing activities	\$ (51,409)	\$ (62,628)	\$ (127,939)	\$ (374,946)
Net cash provided by (used for) financing activities	\$ (14,505)	\$ 14,365	\$ 39,295	\$ 253,016
Capital expenditures	\$ 51,409	\$ 62,628	\$ 127,939	\$ 246,021
EBITDA from continuing operations ⁽¹⁾	\$ 129,113	\$ 72,912	\$ 284,795	\$ 186,337

(1) Earnings before interest, taxes, depreciation and amortization, which we refer to as (EBITDA), is calculated as net income plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income

as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity.

EBITDA is not necessarily comparable to similarly titled measures of other companies.

EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance.

EBITDA is also used by our management for internal analysis and as a basis for financial covenants.

EBITDA presented above is reconciled to net income under Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part I of this Form 10-Q.

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

**Three Months Ended
September 30,**

**Nine Months Ended
September 30,**

Edgar Filing: HOLLY CORP - Form 10-Q

	2010	2009	2010	2009
			(In thousands)	
Sales and other revenues				
Refining ⁽¹⁾	\$ 2,081,709	\$ 1,476,304	\$ 6,086,243	\$ 3,136,017
HEP ⁽²⁾	46,558	40,805	132,730	108,136
Corporate and Other	100	229	317	423
Eliminations	(37,379)	(28,847)	(108,152)	(72,277)
Consolidated	\$ 2,090,988	\$ 1,488,491	\$ 6,111,138	\$ 3,172,299

- 35 -

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Operating Income (loss)				
Refining ⁽¹⁾	\$ 100,111	\$ 50,584	\$ 200,080	\$ 121,703
HEP ⁽²⁾	24,588	21,880	65,737	53,287
Corporate and Other	(16,652)	(16,183)	(47,529)	(43,467)
Eliminations	(429)	(699)	(1,250)	(699)
Consolidated	\$ 107,618	\$ 55,582	\$ 217,038	\$ 130,824

(1) The Refining segment includes the operations of our Navajo, Woods Cross and Tulsa Refineries and Holly Asphalt Company (Holly Asphalt) and involves the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. The petroleum products are primarily marketed in the Southwest, Rocky Mountain and

Mid-Continent regions of the United States and northern Mexico. Additionally, specialty lubricant products produced at our Tulsa Refinery are marketed throughout North America and are distributed in Central and South America. Holly Asphalt manufactures and markets asphalt and asphalt products in Arizona, New Mexico, Texas and northern Mexico.

- (2) The HEP segment involves all of the operations of HEP. HEP owns and operates a system of petroleum product and crude gathering pipelines and refinery tankage in Texas, New Mexico, Oklahoma and Utah, and distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho,

Oklahoma and Washington. Revenues are generated by charging tariffs for transporting petroleum products and crude oil through its pipelines and by charging fees for terminalling petroleum products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Additionally, HEP owns a 25% interest in the SLC Pipeline that services refineries in the Salt Lake City, Utah area. Revenues from the HEP segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations.

Refining Operating Data (Unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
<i>Navajo Refinery</i>				
Crude charge (BPD) ⁽¹⁾	85,110	86,250	82,150	76,670
Refinery production (BPD) ⁽²⁾	91,550	93,620	90,290	84,560
Sales of produced refined products (BPD)	92,180	93,996	90,730	84,102
Sales of refined products (BPD) ⁽³⁾	94,900	96,580	93,780	88,110
Refinery utilization ⁽⁴⁾	85.1%	86.2%	82.2%	80.7%
Average per produced barrel ⁽⁵⁾				
Net sales	\$ 87.60	\$ 78.15	\$ 88.98	\$ 69.21
Cost of products ⁽⁶⁾	79.39	70.88	81.44	60.25
Refinery gross margin	8.21	7.27	7.54	8.96
Refinery operating expenses ⁽⁷⁾	5.25	4.37	5.01	4.88
Net operating margin	\$ 2.96	\$ 2.90	\$ 2.53	\$ 4.08

- 36 -

Table of Contents

**Three Months Ended
September 30,
2010 2009**

**Nine Months Ended
September 30,
2010 2009**

Feedstocks: