HollyFrontier Corp
Form 10-Q
November 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012
OR

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

For the transition period from ___________ to _____________
Commission File Number 1-3876

HOLLYFRONTIER CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

203,145,233 shares of Common Stock, par value $.01 per share, were outstanding on October 31, 2012.

Table of Content

HOLLYFRONTIER CORPORATION
INDEX

Table of Content

FORWARD-LOOKING STATEMENTS

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier 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 HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries.

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

- risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;
- the demand for and supply of crude oil and refined products;
- the spread between market prices for refined products and market prices for crude oil;
- the possibility of constraints on the transportation of refined products;
- the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;
- effects of governmental and environmental regulations and policies;
- the availability and cost of our financing;
- the effectiveness of our capital investments and marketing strategies;
- our efficiency in carrying out construction projects;
- our ability to acquire refined product operations or pipeline and terminal operations on acceptable terms and to integrate any existing or future acquired operations;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our SEC filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material 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, 2011 and in conjunction with the discussion in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Liquidity and Capital Resources.” All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Content

PART I. FINANCIAL INFORMATION

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.

"Biodiesel" means a clean alternative fuel produced from renewable biological resources.

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

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

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

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

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

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

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

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

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

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

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

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

“LPG” means liquid petroleum gases.

Table of Content

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

“MSAT2” means Control of Hazardous Air Pollutants from Mobile Sources, a rule issued by the U.S. Environmental Protection Agency to reduce hazardous emissions from motor vehicles and motor vehicle fuels.

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

“MMBTU” means one million British thermal units.

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

“PPM” means parts-per-million.

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

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

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

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

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

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

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

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

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

“WCS” means Western Canada Select crude oil and is made up of Canadian heavy conventional and bitumen crude oils blended with sweet synthetic and condensate diluents.

“WTI” means West Texas Intermediate and is a grade of crude oil used as a common benchmark in oil pricing. WTI is a sweet crude oil and has a relatively low density.

Table of Content

Item 1. Financial Statements
HOLLYFRONTIER CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2012 (Unaudited)	December 31, 2011 As Adjusted (see Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: $1,993 and $6,369, respectively)	$2,057,408	$1,578,904
Marketable securities	280,409	211,639
Accounts receivable: Product and transportation (HEP: $42,832 and $37,290, respectively)	734,662	703,691
Crude oil resales	2,212	5,166
	736,874	708,857
Inventories: Crude oil and refined products	1,406,147	1,052,084
Materials and supplies (HEP: $1,233 and $1,483, respectively)	79,303	62,535
	1,485,450	1,114,619
Income taxes receivable	40,548	87,277
Prepayments and other (HEP: $3,080 and $2,246, respectively)	31,232	219,450
Total current assets	4,631,921	3,920,746
Properties, plants and equipment, at cost (HEP: $1,122,334 and $1,099,579, respectively)	3,823,731	3,631,787
Less accumulated depreciation (HEP: $(127,408) and $(93,200), respectively)	(703,799)	(578,882)
	3,119,932	3,052,905
Marketable securities (long-term)	5,519	50,067
Other assets: Turnaround costs	83,585	57,060
Goodwill (HEP: $288,991 and $288,991, respectively)	2,338,302	2,336,510
Intangibles and other (HEP: $76,096 and $75,902, respectively)	166,677	158,955
	2,588,564	2,552,525
Total assets	$10,345,936	$9,576,243
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: $11,303 and $21,709, respectively)	$1,530,714	$1,504,694
Income taxes payable	150,899	40,366
Accrued liabilities (HEP: $19,315 and $16,006, respectively)	219,980	169,940
Deferred income tax liabilities	175,567	175,683
Total current liabilities	2,077,160	1,890,683
Long-term debt (HEP: $874,434 and $598,761, respectively)	1,346,227	1,214,742
Deferred income taxes	399,205	463,721
Other long-term liabilities (HEP: $7,574 and $4,000, respectively)	163,848	171,197
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, $1.00 par value – 5,000,000 shares authorized; none issued	—	—

Common stock $.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of September 30, 2012 and December 31, 2011	2,560	2,563
Additional capital	3,904,379	3,859,367
Retained earnings	2,806,117	1,964,656
Accumulated other comprehensive income (loss)	(62,521)	77,873
Common stock held in treasury, at cost – 52,417,146 and 46,630,220 shares as of September 30, 2012 and December 31, 2011, respectively	(886,259)	(700,449)
Total HollyFrontier stockholders’ equity	5,764,276	5,204,010
Noncontrolling interest	595,220	631,890
Total equity	6,359,496	5,835,900
Total liabilities and equity	$10,345,936	$9,576,243

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of September 30, 2012 and December 31, 2011. HEP is a consolidated variable interest entity.

In July 2012, HEP acquired our 75% interest in UNEV Pipeline, LLC (“UNEV”). We have recast HEP's asset and liability balances at December 31, 2011 presented parenthetically above to include balances attributable to UNEV. See Note 4.

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Sales and other revenues	$5,204,798	$5,173,398	$14,943,217	$10,467,116
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	3,898,736	3,989,927	11,767,417	8,421,639
Operating expenses (exclusive of depreciation and amortization)	233,859	227,883	698,212	501,971
General and administrative expenses (exclusive of depreciation and amortization)	28,787	43,141	88,421	78,641
Depreciation and amortization	65,112	43,240	178,162	106,380
Total operating costs and expenses	4,226,494	4,304,191	12,732,212	9,108,631
Income from operations	978,304	869,207	2,211,005	1,358,485
Other income (expense):				
Earnings of equity method investments	852	532	2,455	1,739
Interest income	2,219	204	3,360	946
Interest expense	(21,103)	(25,074)	(81,360)	(56,471)
Gain on sale of marketable equity securities	—	—	326	—
Merger transaction costs	—	(9,100)	—	(15,114)
	(18,032)	(33,438)	(75,219)	(68,900)
Income before income taxes	960,272	835,769	2,135,786	1,289,585
Income tax provision:				
Current	324,211	296,670	753,018	461,210
Deferred	25,411	8,088	22,728	4,520
	349,622	304,758	775,746	465,730
Net income	610,650	531,011	1,360,040	823,855
Less net income attributable to noncontrolling interest	10,277	7,923	24,472	23,838
Net income attributable to HollyFrontier stockholders	$600,373	$523,088	$1,335,568	$800,017
Earnings per share attributable to HollyFrontier stockholders:				
Basic	$2.95	$2.50	$6.46	$5.66
Diluted	$2.94	$2.48	$6.44	$5.63
Cash dividends declared per common share	$1.15	$0.59	$2.40	$0.74
Average number of common shares outstanding:				
Basic	203,557	209,583	206,657	141,353
Diluted	204,434	210,579	207,546	142,092

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$610,650	$531,011	$1,360,040	$823,855
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	13	(655)	(203)	(972)
Unrealized gain (loss), net of reclassifications from contract settlements of hedging instruments	(111,333)	23,272	(236,147)	24,864
Pension curtailment adjustment	—	—	7,102	—
Retirement medical obligation adjustment	—	9	—	9
Other comprehensive income (loss) before income taxes	(111,320)	22,626	(229,248)	23,901
Income tax expense (benefit)	(43,353)	8,520	(89,383)	8,618
Other comprehensive income (loss)	(67,967)	14,106	(139,865)	15,283
Total comprehensive income	542,683	545,117	1,220,175	839,138
Less noncontrolling interest in comprehensive income	10,406	8,640	25,001	25,575
Comprehensive income attributable to HollyFrontier stockholders	$532,277	$536,477	$1,195,174	$813,563

See accompanying notes.

Table of Content

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

	Nine Months Ended September 30, 2012	2011 As Adjusted (See Note 2)
Cash flows from operating activities:		
Net income	$1,360,040	$823,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,162	106,380
Earnings of equity method investments, net of distributions	169	198
Gain on sale of marketable equity securities	(326)	—
Deferred income taxes	22,728	4,520
Equity-based compensation expense	25,399	15,535
Change in fair value – derivative instruments	(10,977)	(5,920)
(Increase) decrease in current assets:		
Accounts receivable	(29,474)	495,971
Inventories	(370,831)	(195,575)
Income taxes receivable	53,465	51,034
Prepayments and other	16,690	7,778
Increase (decrease) in current liabilities:		
Accounts payable	(96,263)	(403,762)
Income taxes payable	110,533	182,468
Accrued liabilities	(6,166)	28,999
Turnaround expenditures	(74,612)	(27,985)
Other, net	(6,749)	5,707
Net cash provided by operating activities	1,171,788	1,089,203
Cash flows from investing activities:		
Additions to properties, plants and equipment	(178,235)	(98,428)
Additions to properties, plants and equipment – HEP	(29,302)	(175,795)
Increase in cash due to merger with Frontier	—	872,158
Investment in Sabine Biofuels	(2,000)	(9,125)
Purchases of marketable securities	(236,315)	(370,042)
Sales and maturities of marketable securities	212,216	194,386
Net cash provided by (used for) investing activities	(233,636)	413,154
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	523,000	93,000
Repayments under credit agreement – HEP	(292,000)	(50,000)
Net proceeds from issuance of senior notes – HEP	294,750	—
Principal tender on senior notes – HFC	(205,000)	(15)
Principal tender on senior notes – HEP	(185,000)	—
Purchase of treasury stock	(190,307)	(38,955)
Structured stock repurchase arrangement	8,620	—
Contribution from joint venture partner	6,000	27,500

Dividends	(382,610)	(129,377)
Distributions to noncontrolling interest	(43,749)	(37,929)
Excess tax benefit from equity-based compensation	16,021	1,399
Purchase of units for incentive grants – HEP	(4,919)	(1,641)
Deferred financing costs	(3,289)	(11,724)
Other	(1,165)	(857)
Net cash used for financing activities	(459,648)	(148,599)
Cash and cash equivalents:		
Increase for the period	478,504	1,353,758
Beginning of period	1,578,904	229,101
End of period	$2,057,408	$1,582,859
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$77,184	$50,570
Income taxes	$622,314	$225,499

See accompanying notes.

9

Table of Content

HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier 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 these financial statements, the words “we,” “our,” “ours” and “us” refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person, with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries.

We merged with Frontier Oil Corporation (“Frontier”) effective July 1, 2011. Concurrent with the merger, we changed our name from Holly Corporation (“Holly”) to HollyFrontier and changed the ticker symbol for our common stock traded on the New York Stock Exchange to “HFC” (see Note 3). Accordingly, these financial statements include Frontier, its consolidated subsidiaries and the operations of the merged Frontier businesses effective July 1, 2011, but not prior to this date.

We are principally an independent petroleum refiner that produces high-value light products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate petroleum refineries that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. As of September 30, 2012, we:

- owned and operated a petroleum refinery in El Dorado, Kansas (the “El Dorado Refinery”), two refinery facilities located in Tulsa, Oklahoma (collectively, the “Tulsa Refineries”), a 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 located in Cheyenne, Wyoming (the “Cheyenne Refinery”) and a refinery in Woods Cross, Utah (the “Woods Cross Refinery”);
- owned and operated NK Asphalt Partners (“NK Asphalt”) which operates various asphalt terminals in Arizona and New Mexico;
- owned Ethanol Management Company (“EMC”), a products terminal and blending facility near Denver, Colorado and a 50% interest in Sabine Biofuels II, LLC (“Sabine Biofuels”), a biodiesel production facility located in Port Arthur, Texas; and
- owned a 44% interest in HEP, a consolidated variable interest entity (“VIE”), which includes our 2% general partner interest. HEP owns and operates logistic assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that principally support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.'s (“Alon”) refinery in Big Spring, Texas. Additionally, HEP owns a 75% interest in UNEV, which owns a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas (the “UNEV Pipeline”) and a 25% interest in SLC Pipeline LLC (the “SLC Pipeline”), a 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

We have prepared these consolidated financial statements without audit. In management's opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of September 30, 2012, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011 and consolidated cash flows for the nine months ended September 30, 2012 and 2011 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, 2011 that has been filed with the SEC.

Our results of operations for the nine months ended September 30, 2012 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2012.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

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 letters of credit or guarantees, is required. We reserve for doubtful accounts based on our historical loss experience as well as specific accounts identified as high risk, which historically have been minimal. Credit losses are charged to the allowance for doubtful accounts when an account is deemed uncollectible. Our allowance for doubtful accounts was $2.5 million and $3.5 million at September 30, 2012 and December 31, 2011, respectively.

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

Goodwill: Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually, or more frequently if events or circumstances indicate the possibility of impairment. As of September 30, 2012, there have been no impairments to goodwill.

NOTE 2: Change in Accounting Principle

In the first quarter of 2012, we changed our policy of reporting certain same-party accounts receivable and payable balances in the consolidated balance sheets to reflect a net amount due under contractual netting agreements. Prior to this change, we reported such balances on a gross basis with a same-party receivable and payable balance presented separately in our balance sheet. GAAP permits a reporting entity to elect a policy of offsetting same-party receivables and payables when such amounts are net settled under legally enforceable contractual setoff provisions. We believe that a net presentation is preferable because it more appropriately presents our economic resources (accounts receivable) and claims against us (accounts payable) and the future cash flows associated with such assets and liabilities. Additionally, we believe a net presentation of such amounts conforms to the predominant practices used by other companies in our industry. We have applied this change in accounting principle on a retrospective basis and have recast our prior period financial statements.

The following table summarizes the line items affected in our consolidated balance sheet at December 31, 2011:

	As Originally Reported	As Adjusted	Effect of Change
	(In thousands)		
Accounts receivable: Crude oil resales	$743,544	$5,166	$(738,378)
Total current assets	4,659,124	3,920,746	(738,378)
Total assets	$10,314,621	$9,576,243	$(738,378)
Accounts payable	$2,243,072	$1,504,694	$(738,378)
Total current liabilities	2,629,061	1,890,683	(738,378)
Total liabilities and equity	$10,314,621	$9,576,243	$(738,378)

The following table summarizes the line items affected in our consolidated statement of cash flow for the nine months ended September 30, 2011:

	As Originally Reported (In thousands)	As Adjusted	Effect of Change
(Increase) decrease in current assets:			
Accounts receivable	$389,289	$495,971	$106,682
Increase (decrease) in current liabilities:			
Accounts payable	$(297,080)	$(403,762)	$(106,682)

At September 30, 2012, our accounts payable balance is presented net of $639.4 million in crude oil receivables subject to contractual setoff provisions. There was no cumulative impact to retained earnings since this change in accounting principle did not affect earnings.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 3: Holly-Frontier Merger

On February 21, 2011, we entered into a merger agreement providing for a “merger of equals” business combination between us and Frontier. The legacy Frontier business operations consist of crude oil refining and the wholesale marketing of refined petroleum products produced at the El Dorado and Cheyenne Refineries and serve markets in the Rocky Mountain and Plains States regions of the United States. On July 1, 2011, North Acquisition, Inc., a direct wholly-owned subsidiary of Holly, merged with and into Frontier, with Frontier surviving as a wholly-owned subsidiary of Holly. Subsequent to the merger and following approval by the post-closing board of directors of HollyFrontier, Frontier merged with and into HollyFrontier, with HollyFrontier continuing as the surviving corporation.

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

Our consolidated financial and operating results reflect the operations of the merged Frontier businesses beginning July 1, 2011. Assuming the merger had been consummated on January 1, 2011, pro forma revenues, net income and basic and diluted earnings per share are as follows:

	Nine Months Ended September 30, 2011
	(In thousands, except per share amounts)
Sales and other revenues	$14,446,297
Net income attributable to HollyFrontier stockholders	$1,118,018
Basic earnings per share	$5.34
Diluted earnings per share	$5.31

Adjustments made to derive pro forma net income primarily relate to depreciation and amortization expense to reflect our new basis in the legacy Frontier refining facilities.

NOTE 4: Holly Energy Partners

HEP, a consolidated VIE, is a publicly held master limited partnership that was formed to acquire, own and operate the petroleum product and crude oil pipeline and terminal, tankage and loading rack facilities that support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. HEP also owns and operates refined product pipelines and terminals, located primarily in Texas, that serve Alon's refinery in Big Spring, Texas.

As of September 30, 2012, we owned a 44% interest in HEP, including the 2% general partner interest. We are the primary beneficiary of HEP's earnings and cash flows and therefore we consolidate HEP. See Note 19 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 financial statements.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil though its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 83% of HEP's total revenues for the nine months ended September 30, 2012. We do not provide financial or equity support through any liquidity arrangements and /or debt 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 12 for a description of HEP's debt obligations.

At September 30, 2012, we have an agreement to pledge up to 6,000,000 of our HEP common units to collateralize certain crude oil purchases. These units represent a 21% ownership interest in HEP.

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

UNEV Interest Transaction
On July 12, 2012, we sold our 75% interest in UNEV to HEP. We received consideration totaling approximately $315.0 million, which consisted of approximately $260.0 million in cash and 1 million HEP common units. As a result of this transaction, our ownership interest in HEP increased to 44%, which includes the 2% general partner interest. We have a 10-year transportation agreement with the UNEV Pipeline expiring in 2022 that results in minimum annualized payments to UNEV of $16.9 million.

We accounted for this transaction as a business transfer between entities under common control, whereby we have retrospectively adjusted HEP financial information for all prior periods presented as if UNEV was a consolidated subsidiary of HEP since inception. This had no impact on our consolidated balances and amounts; however, it did affect certain amounts presented under the HEP segment in Note 18, "Segment Information" and Note 19, "Supplemental Guarantor/Non-Guarantor Financial Information."

Transportation Agreements
HEP serves our refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 through 2026. 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. Under these agreements, the agreed upon tariff rates are subject to annual tariff rate adjustments on July 1 at a rate based upon the percentage change in Producer Price Index ("PPI") or Federal Energy Regulatory Commission ("FERC") index. As of July 1, 2012, these agreements result in minimum annualized payments to HEP of $200.3 million.

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

HEP Common Unit Issuances
As a result of the common units received in connection with HEP's acquisition of our 75% interest in UNEV, we adjusted additional capital and equity attributable to HEP's noncontrolling interest holders to effectively reallocate a

portion of HEP's equity among its unitholders.

NOTE 5: Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. HEP's outstanding credit agreement borrowings approximate fair value as interest rates are reset frequently at current interest rates.

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

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

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

- (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.

The carrying amounts and related estimated fair values of our investments in marketable securities, derivative instruments and the senior notes at September 30, 2012 and December 31, 2011 were as follows:

			Fair Value by Input Level		
Financial Instrument	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
		(In thousands)			
September 30, 2012					
Assets:					
Marketable debt securities	$285,928	$285,928	$—	$285,928	$—
NYMEX futures contracts	4,126	4,126	4,126	—	—
Total assets	$290,054	$290,054	$4,126	$285,928	$—
Liabilities:					
Commodity price swaps	$57,457	$57,457	$—	$29,409	$28,048
HollyFrontier senior notes	435,139	475,977	—	475,977	—
HEP senior notes	443,434	473,625	—	473,625	—
HEP interest rate swaps	3,764	3,764	—	3,764	—
Total liabilities	$939,794	$1,010,823	$—	$982,775	$28,048
December 31, 2011					
Assets:					
Equity securities	$753	$753	$753	$—	$—
Marketable debt securities	260,953	260,953	—	260,953	—
Commodity price swaps	175,654	175,654	—	144,038	31,616
Total assets	$437,360	$437,360	$753	$404,991	$31,616
Liabilities:					
NYMEX futures contracts	$1,252	$1,252	$1,252	$—	$—
HollyFrontier senior notes	651,262	693,979	—	693,979	—
HEP senior notes	325,860	344,350	—	344,350	—
HEP interest rate swaps	520	520	—	520	—
Total liabilities	$978,894	$1,040,101	$1,252	$1,038,849	$—

Level 1 Financial Instruments
Our investments in equity securities and our NYMEX futures contracts are exchange traded and are measured and recorded at fair value using quoted market prices, a Level 1 input.

Level 2 Financial Instruments
Investments in marketable debt securities and derivative instruments consisting of commodity price swaps and HEP's interest rate swaps are measured and recorded at fair value using Level 2 inputs. With respect to the commodity price and interest rate swap contracts, 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 swaps. The fair value of the marketable debt securities and senior notes is based on values provided by a third-party bank, which were derived using market quotes for similar type instruments, a Level 2 input.

Level 3 Financial Instruments

We have entered into certain commodity price swap contracts related to forecasted sales of diesel and unleaded gasoline for which quoted forward market prices are not readily available. The forward rate used to value these price swaps was derived using a projected forward rate using quoted market rates for similar products, adjusted for regional pricing differentials, a Level 3 input.

The following table presents the changes in fair value of the Level 3 assets and liabilities (all related to commodity price swap contracts) for the three and nine months ended September 30, 2012:

Level 3 Financial Instruments	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
	(In thousands)	
Asset balance at beginning of period	$119,461	$31,616
Change in fair value	(192,446)	(158,893)
Settlement date fair value of contracts open at beginning of period	44,937	99,229
Liability balance at end of period	$(28,048)	$(28,048)

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 commodity price swaps would result in an estimated fair value change of approximately $4.0 million.

NOTE 6: Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Earnings attributable to HollyFrontier stockholders	$600,373	$523,088	$1,335,568	$800,017
Average number of shares of common stock outstanding	203,557	209,583	206,657	141,353
Effect of dilutive variable restricted shares and performance share units (1)	877	996	889	739
Average number of shares of common stock outstanding assuming dilution	204,434	210,579	207,546	142,092
Basic earnings per share	$2.95	$2.50	$6.46	$5.66
Diluted earnings per share	$2.94	$2.48	$6.44	$5.63
(1) Excludes anti-dilutive restricted and performance share units of:	—	39	3	179

NOTE 7: Stock-Based Compensation

As of September 30, 2012, we have two principal share-based compensation plans including the Frontier plan that was retained upon the July 1, 2011 merger (collectively, the “Long-Term Incentive Compensation Plan”).

The compensation cost charged against income for these plans was $7.3 million and $9.4 million for the three months ended September 30, 2012 and 2011, respectively, and $23.2 million and $13.9 million for the nine months ended September 30, 2012 and 2011, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs ratably over the vesting periods.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Additionally, HEP maintains a share-based compensation plan for HEP directors and select Holly Logistic Services, L.L.C. executives and employees. Compensation cost attributable to HEP's share-based compensation plan was $0.5 million and $0.6 million for the three months ended September 30, 2012 and 2011, respectively, and $2.1 million and $1.6 million for the nine months ended September 30, 2012 and 2011, respectively.

Restricted Stock
Under our Long-Term Incentive Compensation Plan, we grant certain officers, other key employees and non-employee directors restricted stock awards with most awards vesting over a period of one to three 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, is measured based on the market price as of the date of grant and is amortized over the respective vesting period.

A summary of restricted stock activity and changes during the nine months ended September 30, 2012 is presented below:

Restricted Stock	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2012 (non-vested)	1,122,350	$25.48	
Granted	420,922	33.97	
Vesting and transfer of ownership to recipients	(574,408)	23.48	
Forfeited	(3,975)	33.06	
Outstanding at September 30, 2012 (non-vested)	964,889	$30.35	$39,821

For the nine months ended September 30, 2012, we issued 574,408 shares of our common stock upon the vesting of restricted stock grants having a grant date fair value of $13.5 million. As of September 30, 2012, there was $12.3 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 1.1 years.

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

The fair value of performance share unit awards subject to financial performance criteria 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, 2012, estimated share payouts for outstanding non-vested performance share unit awards ranged from 107% to 175%.

For the performance share units subject to market performance criteria, performance is calculated as the total shareholder return achieved by HollyFrontier stockholders compared with the average shareholder return achieved by an equally-weighted peer group of independent refining companies over a three-year period. These share unit awards are valued using a Monte Carlo valuation model, which simulates future stock price movements using key inputs including grant date stock prices, expected stock price performance, expected rate of return and volatility. These units are payable in stock based on share price performance relative to the defined peer group and can range from zero to 200% of the initial target award.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

A summary of performance share unit activity and changes during the nine months ended September 30, 2012 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2012 (non-vested)	774,788
Granted	298,559
Vesting and transfer of ownership to recipients	(240,019)
Forfeited	(5,057)
Outstanding at September 30, 2012 (non-vested)	828,271

For the nine months ended September 30, 2012, we issued 459,426 shares of our common stock, representing a 191% payout on vested performance share units having a grant date fair value of $2.8 million. Based on the weighted-average grant date fair value of $28.20 per share, there was $15.1 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 8: Cash and Cash Equivalents and Investments in Marketable Securities

Our investment portfolio at September 30, 2012 consisted of cash, cash equivalents and investments in debt securities primarily issued by government and municipal entities.

We invest in highly-rated marketable debt securities, primarily issued by government and municipal entities that have maturities at the date of purchase of greater than three months. We also invest in other marketable debt securities with the maximum maturity or put date of any individual issue generally not greater than two years from the date of purchase, which are usually held until maturity. All of these instruments are classified as available-for-sale. As a result, they are reported at fair value using quoted market prices. Interest income is recorded as earned. Unrealized gains and losses, net of related income taxes, are reported as a component of accumulated other comprehensive income. Upon sale, realized gains and losses on the sale of marketable securities are computed based on the specific identification of the underlying cost of the securities sold and the unrealized gains and losses previously reported in other comprehensive income are reclassified to current earnings.

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
	(In thousands)			
September 30, 2012				
Marketable debt securities (state and political subdivisions)	$285,915	$26	$(13)	$285,928
December 31, 2011				
Marketable debt securities (state and political subdivisions)	$260,879	$74	$—	$260,953
Equity securities	610	143	—	753

Total marketable securities	$261,489	$217	$—	$261,706

For the nine months ended September 30, 2012, we invested $236.3 million in marketable debt securities and received a total of $212.2 million from sales and maturities of equity and marketable debt securities.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 9: Inventories

Inventory consists of the following components:

	September 30, 2012	December 31, 2011
	(In thousands)	
Crude oil	$526,783	$400,952
Other raw materials and unfinished products(1)	126,406	137,356
Finished products(2)	752,958	513,776
Process chemicals(3)	2,663	1,180
Repairs and maintenance supplies and other	76,640	61,355
Total inventory	$1,485,450	$1,114,619

(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 additives and other chemicals.

NOTE 10: Goodwill

The following table provides a summary of changes to our goodwill balance by segment for the nine months ended September 30, 2012.

	Refining Segment	HEP	Total
	(In thousands)		
Balance at January 1, 2012	$2,047,519	$288,991	$2,336,510
Adjustment to goodwill related to Frontier merger	1,792	—	1,792
Balance at September 30, 2012	$2,049,311	$288,991	$2,338,302

During the first quarter of 2012, we adjusted goodwill upon finalizing certain fair value estimates that primarily relate to income tax receivables, properties, plants and equipment and environmental liabilities that were recognized upon our July 1, 2011 merger with Frontier.

NOTE 11: Environmental

We expensed $1.7 million and $0.7 million for the three months ended September 30, 2012 and 2011, respectively, and $16.9 million and $0.6 million for the nine months ended September 30, 2012 and 2011, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $61.8 million and $42.2 million at September 30, 2012 and December 31, 2011, respectively, of which $48.6 million and $31.7 million, respectively, were classified as other long-term liabilities. These accruals include remediation costs expected to be incurred over an extended period of time. They also include $15.6 million in environmental liabilities that were assumed upon our merger with Frontier.

Table of Contents
HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 12: Debt

HollyFrontier Credit Agreement
We have a $1 billion senior secured credit agreement (the "HollyFrontier Credit Agreement") with Union Bank, N.A. as administrative agent and certain lenders from time to time party thereto. The HollyFrontier Credit Agreement matures in July 2016 and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries.

At September 30, 2012, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling $29.2 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement
In June 2012, HEP amended its previous credit agreement, increasing the size of the credit facility from $375 million to $550 million. HEP's $550 million senior secured revolving credit facility matures in June 2017 (the "HEP Credit Agreement") and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a $50 million sub-limit and to fund distributions to unitholders up to a $60 million sub-limit. At September 30, 2012, the HEP Credit Agreement had outstanding borrowings of $431.0 million.

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

HollyFrontier Senior Notes
Our senior notes consist of the following:
- 9.875% senior notes ($286.8 million principal amount maturing June 2017)
- 6.875% senior notes ($150 million principal amount maturing November 2018)

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

In September 2012, we redeemed our $200 million aggregate principal amount of 8.5% senior notes maturing September 2016 at a $208.5 million redemption price. At that time, we recognized an unamortized debt premium which was netted against the $8.5 million redemption premium, resulting in a net reduction of $2.4 million to interest expense upon redemption.

HollyFrontier Financing Obligation

We have a financing obligation that relates to a sale and lease-back of certain crude oil tankage that we sold to an affiliate of Plains All American Pipeline, L.P. (“Plains”) in October 2009. Under this transaction, the $40.0 million in cash proceeds received was recorded as a liability. Monthly lease payments are recorded as a reduction in principal over the 15-year lease term ending in 2024.

HEP Senior Notes

HEP’s senior notes consist of the following:

- 8.25% HEP senior notes ($150 million principal amount maturing March 2018)
- 6.5% HEP senior notes ($300 million principal amount maturing March 2020)

In March 2012, HEP issued $300 million in an aggregate principal amount of 6.5% HEP senior notes maturing March 2020. The $294.8 million in net proceeds were used to repay $157.8 million aggregate principal amount of 6.25% HEP senior notes, $72.9 million in promissory notes due to HollyFrontier, related fees, expenses and accrued interest in connection with these transactions and to repay borrowings under the HEP Credit Agreement. In April 2012, HEP called for redemption the $27.3 million aggregate principal amount outstanding of 6.25% HEP senior notes.

The 8.25% and 6.5% HEP 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 involves recourse to HEP Logistics Holdings, L.P., its general partner, and is guaranteed by HEP's wholly-owned subsidiaries. However, any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. HEP's creditors have no other recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

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

	September 30, 2012	December 31, 2011
	(In thousands)	
9.875% Senior Notes		
Principal	$286,812	$291,812
Unamortized discount	(7,788)	(8,930)
	279,024	282,882
6.875% Senior Notes		
Principal	150,000	150,000
Unamortized premium	6,115	6,490
	156,115	156,490
8.5% Senior Notes		
Principal	—	199,985
Unamortized premium	—	11,905
	—	211,890
Financing Obligation	36,654	37,620
Total HollyFrontier long-term debt	471,793	688,882
HEP Credit Agreement	431,000	200,000
HEP 8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(1,678)	(1,907)
	148,322	148,093

HEP 6.5% Senior Notes		
Principal	300,000	—
Unamortized discount	(4,888)	—
	295,112	