HollyFrontier Corp
Form 10-Q
May 08, 2013

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 March 31, 2013
OR

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes 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
203,105,789 shares of Common Stock, par value $.01 per share, were outstanding on April 30, 2013.

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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, 2012 and in conjunction with the discussion in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Liquidity and Capital Resources." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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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.

“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.

“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.

"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.

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“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.

“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.

“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.

“WTS” means West Texas Sour, a medium sour crude oil.

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

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: $18,193 and $5,237, respectively)	$1,872,442	$1,757,699
Marketable securities	665,694	630,586
Accounts receivable: Product and transportation (HEP: $37,129 and $38,097, respectively)	599,669	587,728
Crude oil resales	56,855	46,502
	656,524	634,230
Inventories: Crude oil and refined products	1,398,769	1,238,678
Materials, supplies and other (HEP: $1,491 and $1,259, respectively)	72,031	80,954
	1,470,800	1,319,632
Income taxes receivable	37,904	74,957
Prepayments and other (HEP: $1,984 and $2,360, respectively)	59,946	53,161
Total current assets	4,763,310	4,470,265
Properties, plants and equipment, at cost (HEP: $1,158,287 and $1,155,710, respectively)	4,008,803	3,943,114
Less accumulated depreciation (HEP: $(152,710) and $(141,154), respectively)	(794,605)	(748,414)
	3,214,198	3,194,700
Marketable securities (long-term)	5,000	5,116
Other assets: Turnaround costs	197,356	151,764
Goodwill (HEP: $288,991 and $288,991, respectively)	2,338,302	2,338,302
Intangibles and other (HEP: $75,007 and $76,300, respectively)	178,006	168,850
	2,713,664	2,658,916
Total assets	$10,696,172	$10,328,997
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: $12,346 and $12,030, respectively)	$1,339,419	$1,314,151
Income taxes payable	151,403	—
Accrued liabilities (HEP: $14,135 and $23,705, respectively)	127,005	195,077
Deferred income tax liabilities	149,127	145,216
Total current liabilities	1,766,954	1,654,444
Long-term debt (HEP: $811,913 and $864,673, respectively)	1,283,245	1,336,238
Deferred income taxes (HEP: $4,951 and $4,951, respectively)	554,102	536,670
Other long-term liabilities (HEP: $30,192 and $28,683, respectively)	162,824	158,987
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, $1.00 par value – 5,000,000 shares authorized; none issued	—	—
	2,560	2,560

Common stock $.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of March 31, 2013 and December 31, 2012		
Additional capital	3,973,788	3,911,353
Retained earnings	3,225,050	3,054,769
Accumulated other comprehensive income (loss)	3,334	(8,425)
Common stock held in treasury, at cost – 52,635,439 and 52,411,370 shares as of March 31, 2013 and December 31, 2012, respectively	(918,939)	(907,303)
Total HollyFrontier stockholders' equity	6,285,793	6,052,954
Noncontrolling interest	643,254	589,704
Total equity	6,929,047	6,642,658
Total liabilities and equity	$10,696,172	$10,328,997

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. ("HEP") as of March 31, 2013 and December 31, 2012. HEP is a consolidated variable interest entity.

See accompanying notes.

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

	Three Months Ended March 31, 2013	2012
Sales and other revenues	$4,707,789	$4,931,738
Operating costs and expenses:		
Cost of products sold (exclusive of depreciation and amortization)	3,792,535	4,186,917
Operating expenses (exclusive of depreciation and amortization)	265,099	241,627
General and administrative expenses (exclusive of depreciation and amortization)	29,198	27,528
Depreciation and amortization	71,762	56,102
Total operating costs and expenses	4,158,594	4,512,174
Income from operations	549,195	419,564
Other income (expense):		
Earnings of equity method investments	59	717
Interest income	1,531	460
Interest expense	(21,320)	(33,315)
	(19,730)	(32,138)
Income before income taxes	529,465	387,426
Income tax provision:		
Current	206,627	142,870
Deferred	(20,533)	(2,464)
	186,094	140,406
Net income	343,371	247,020
Less net income attributable to noncontrolling interest	9,702	5,324
Net income attributable to HollyFrontier stockholders	$333,669	$241,696
Earnings per share attributable to HollyFrontier stockholders:		
Basic	$1.64	$1.16
Diluted	$1.63	$1.16
Cash dividends declared per common share	$0.80	$0.60
Average number of common shares outstanding:		
Basic	203,515	208,531
Diluted	204,217	209,138

See accompanying notes.

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

	Three Months Ended March 31,	
	2013	2012
Net income	$343,371	$247,020
Other comprehensive income (loss):		
Securities available-for-sale:		
Unrealized gain on available-for-sale securities	19	305
Reclassification adjustments to net income on sale or maturity of marketable securities	(3)	(117)
Net unrealized gain on available-for-sale securities	16	188
Hedging instruments:		
Change in fair value of cash flow hedging instruments	(10,346)	(140,697)
Reclassification adjustments to net income on settlement of cash flow hedging instruments	27,704	(16,192)
Amortization of unrealized loss attributable to discontinued cash flow hedges	939	1,274
Net unrealized gain (loss) on hedging instruments	18,297	(155,615)
Actuarial loss on post-retirement healthcare plan reclassified to net income upon partial plan settlement	1,726	—
Other comprehensive income (loss) before income taxes	20,039	(155,427)
Income tax expense (benefit)	7,488	(60,670)
Other comprehensive income (loss)	12,551	(94,757)
Total comprehensive income	355,922	152,263
Less noncontrolling interest in comprehensive income	10,494	5,861
Comprehensive income attributable to HollyFrontier stockholders	$345,428	$146,402

See accompanying notes.

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	$343,371	$247,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,762	56,102
Earnings of equity method investments, net of distributions	628	34
Deferred income taxes	(20,533)	(2,464)
Equity-based compensation expense	8,580	9,485
Change in fair value – derivative instruments	(53,745)	12,122
(Increase) decrease in current assets:		
Accounts receivable	(22,294)	(25,247)
Inventories	(151,168)	(230,536)
Income taxes receivable	37,053	365
Prepayments and other	3,866	(1,831)
Increase (decrease) in current liabilities:		
Accounts payable	(40,964)	124,235
Income taxes payable	151,403	111,846
Accrued liabilities	(9,846)	(46,358)
Turnaround expenditures	(69,835)	(21,762)
Other, net	285	20,894
Net cash provided by operating activities	248,563	253,905
Cash flows from investing activities:		
Additions to properties, plants and equipment	(66,951)	(47,133)
Additions to properties, plants and equipment – HEP	(5,013)	(14,254)
Proceeds from sale of property	2,290	—
Investment in Sabine Biofuels	—	(1,200)
Purchases of marketable securities	(178,251)	(106,573)
Sales and maturities of marketable securities	143,280	100,480
Net cash used for investing activities	(104,645)	(68,680)
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	57,000	36,000
Repayments under credit agreement – HEP	(110,000)	(81,000)
Net proceeds from issuance of senior notes – HEP	—	294,750
Principal tender on senior notes – HEP	—	(157,761)
Proceeds from sale of HEP common units	73,444	—
Proceeds from common unit offerings - HEP	73,444	—
Purchase of treasury stock	(6,610)	(62,532)
Contribution from joint venture partner	—	5,500
Dividends	(102,163)	(126,019)
Distributions to noncontrolling interest	(15,288)	(14,391)
Excess tax benefit from equity-based compensation	744	3,792

Purchase of units for incentive grants – HEP	(2,719)	(1,283)
Deferred financing costs	—	(1,123)
Other	2,973	(512)
Net cash used for financing activities	(29,175)	(104,579)
Cash and cash equivalents:		
Increase for the period	114,743	80,646
Beginning of period	1,757,699	1,578,904
End of period	$1,872,442	$1,659,550
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$20,825	$24,422
Income taxes	$17,380	$27,006

See accompanying notes.

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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 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 March 31, 2013, 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 39% 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 Pipeline, LLC ("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 March 31, 2013, the consolidated results of operations and comprehensive income for the three months ended March 31, 2013 and 2012 and consolidated cash flows for the three months ended March 31, 2013 and 2012 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, 2012 that has been filed with the SEC.

Our results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2013.

Balance Sheet Offsetting: We purchase and sell inventories of crude oil with certain same-parties that are net settled in accordance with contractual net settlement provisions. Our policy is to present such balances on a net basis 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. The following table presents these balances on a gross basis with offsetting amounts that reconcile to a net payable balance included in our consolidated balance sheets.

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	Gross Payable	Gross Receivable Offset in Balance Sheet	Net Payable Recognized in Balance Sheet
	(In thousands)		
March 31, 2013			
Accounts Payable	$2,068,683	$(729,264)	$1,339,419
December 31, 2012			
Accounts Payable	$2,037,549	$(723,398)	$1,314,151

See Note 10 for disclosure of amounts related to our derivative instruments that are also presented on a net basis in our consolidated balance sheets.

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 at March 31, 2013 and December 31, 2012.

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 March 31, 2013, there have been no impairments to goodwill.

NOTE 2: 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 March 31, 2013, we owned a 39% 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 16 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 three months ended March 31, 2013. 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 9 for a description of HEP's debt obligations.

At March 31, 2013, we have an agreement to pledge up to 12.0 million of our HEP common units to collateralize certain crude oil purchases. These units represent a 20% 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.

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 including UNEV (a consolidated subsidiary of 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 March 31, 2013, these agreements result in minimum annualized payments to HEP of $220.8 million.

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

HEP Common Unit Offering
In March 2013, HEP closed on a public offering of 1,875,000 of its common units. Additionally, our wholly-owned subsidiary, HollyFrontier Holdings LLC, as a selling unitholder, closed on a public sale of 1,875,000 HEP common units held by it. HEP used net proceeds of $73.4 million to repay indebtedness incurred under its credit facility and for general partnership purposes. As a result of these transactions and resulting HEP ownership changes, we adjusted additional capital and equity attributable to HEP's noncontrolling interest holders to reallocate HEP's equity among its unitholders.

NOTE 3: 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. HEP's outstanding credit agreement borrowings also 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.

- (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.

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The carrying amounts and related estimated fair values of our investments in marketable securities, derivative instruments and senior notes at March 31, 2013 and December 31, 2012 were as follows:

			Fair Value by Input Level		
Financial Instrument	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
		(In thousands)			
March 31, 2013					
Assets:					
Marketable debt securities	$670,694	$670,694	$—	$670,694	$—
Commodity price swaps	43,808	43,808	—	27,598	16,210
Forward sales	1,468	1,468	—	—	1,468
Total assets	$715,970	$715,970	$—	$698,292	$17,678
Liabilities:					
NYMEX futures contracts	$5,837	$5,837	$5,837	$—	$—
Commodity price swaps	38,650	38,650	—	14,723	23,927
HollyFrontier senior notes	435,373	469,573	—	469,573	—
HEP senior notes	443,913	480,563	—	480,563	—
HEP interest rate swaps	2,868	2,868	—	2,868	—
Total liabilities	$926,641	$997,491	$5,837	$967,727	$23,927
December 31, 2012					
Assets:					
Marketable debt securities	$635,702	$635,702	$—	$635,702	$—
Commodity price swaps	17,383	17,383	—	6,151	11,232
Total assets	$653,085	$653,085	$—	$641,853	$11,232
Liabilities:					
NYMEX futures contracts	$5,563	$5,563	$5,563	$—	$—
Commodity price swaps	83,982	83,982	—	39,092	44,890
HollyFrontier senior notes	435,254	470,990	—	470,990	—
HEP senior notes	443,673	484,125	—	484,125	—
HEP interest rate swaps	3,430	3,430	—	3,430	—
Total liabilities	$971,902	$1,048,090	$5,563	$997,637	$44,890

Level 1 Financial Instruments
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. The fair values of the commodity price and interest rate swap contracts are 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, which were derived using market quotes for similar type instruments, a Level 2 input.

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Level 3 Financial Instruments
We have commodity price swap contracts that relate to forecasted sales of diesel and unleaded gasoline and forecasted purchases of WCS for which quoted forward market prices are not readily available. The forward rate used to value these price swaps is derived using a projected forward rate using quoted market rates for similar products, adjusted for regional pricing and grade differentials, a Level 3 input.

The following table presents the changes in fair value of the Level 3 assets and liabilities (all related to derivative instruments) for the three months ended March 31, 2013 and 2012:

Level 3 Financial Instruments	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Asset (liability) balance at beginning of period	$(33,658)	$31,616
Change in fair value:		
Recognized in other comprehensive income	(49,202)	(146,769)
Recognized in cost of products sold	43,559	—
Settlement date fair value of contractual maturities:		
Recognized in sales and other revenues	19,185	(34,125)
Recognized in cost of products sold	13,867	—
Asset (liability) balance at end of period	$(6,249)	$(149,278)

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 derivative instruments would result in an estimated fair value change of approximately $4.1 million.

NOTE 4: 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 March 31,	
	2013	2012
	(In thousands, except per share data)	
Earnings attributable to HollyFrontier stockholders	$333,669	$241,696
Average number of shares of common stock outstanding	203,515	208,531
Effect of dilutive variable restricted shares and performance share units	702	607
Average number of shares of common stock outstanding assuming dilution	204,217	209,138
Basic earnings per share	$1.64	$1.16
Diluted earnings per share	$1.63	$1.16

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NOTE 5: Stock-Based Compensation

As of March 31, 2013, we have two principal share-based compensation plans (collectively, the “Long-Term Incentive Compensation Plan”).

The compensation cost charged against income for these plans was $7.5 million and $8.5 million for the three months ended March 31, 2013 and 2012, 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.

Additionally, HEP maintains a share-based compensation plan for Holly Logistic Services, L.L.C. non-employee directors and certain executives and employees. Compensation cost attributable to HEP’s share-based compensation plan was $1.1 million and $0.9 million for the three months ended March 31, 2013 and 2012, respectively.

Restricted Stock and Restricted Stock Units
Under our Long-Term Incentive Compensation Plan, we grant certain officers and other key employees restricted stock awards with awards generally vesting over a period of three years. Award recipients are generally entitled to all the rights of absolute ownership of the restricted shares from the date of grant (unless a recipient's tax election requires otherwise) including the right to vote the shares and to receive dividends. Upon vesting, restrictions on the restricted shares lapse at which time they convert to common shares. The vesting for certain key executives is contingent upon certain performance targets being realized. In addition, we grant non-employee directors restricted stock unit awards, which typically vest over a period of one year and are payable in stock. The fair value of each restricted stock and restricted stock unit award 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 and restricted stock unit activity and changes during the three months ended March 31, 2013 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2013 (non-vested)	843,527	$34.52	
Granted	29,500	45.90	
Vesting (transfer/conversion to common stock)	(97,812)	25.48	
Forfeited	(6,714)	35.77	
Outstanding at March 31, 2013 (non-vested)	768,501	$36.09	$39,539

For the three months ended March 31, 2013, 97,812 restricted stock and restricted stock units vested having a grant date fair value of $2.5 million. As of March 31, 2013, there was $15.0 million of total unrecognized compensation cost related to non-vested restricted stock and restricted stock unit grants. That cost is expected to be recognized over a weighted-average period of 1.2 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 March 31, 2013, estimated share payouts for outstanding non-vested performance share unit awards ranged from 110% to 170%.

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.

A summary of performance share unit activity and changes during the three months ended March 31, 2013 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2013 (non-vested)	875,574
Granted	—
Vesting and transfer of ownership to recipients	—
Forfeited	(7,914)
Outstanding at March 31, 2013 (non-vested)	867,660

Based on the weighted-average grant date fair value of $35.40 per share, there was $22.9 million of total unrecognized compensation cost related to non-vested performance share units as of March 31, 2013. That cost is expected to be recognized over a weighted-average period of 1.6 years.

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

Our investment portfolio at March 31, 2013 consisted of cash, cash equivalents and investments in marketable debt securities.

We invest in highly-rated marketable debt securities 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 or maturity, realized gains on our marketable debt securities are recognized as interest income. These gains are computed based on the specific identification of the underlying cost of the securities, net of unrealized gains and losses previously reported in other comprehensive income.

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)			
March 31, 2013				
Certificates of deposit	$81,771	$9	$(4)	$81,776

Commercial paper	51,541	27	—	51,568
Corporate debt securities	69,806	4	(38)	69,772
State and political subdivisions debt securities	467,583	29	(34)	467,578
Total marketable securities	$670,701	$69	$(76)	$670,694
December 31, 2012				
Certificates of deposit	$82,791	$14	$(6)	$82,799
Commercial paper	45,737	17	—	45,754
Corporate debt securities	49,587	2	(30)	49,559
State and political subdivisions debt securities	457,615	26	(51)	457,590
Total marketable securities	$635,730	$59	$(87)	$635,702

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For the three months ended March 31, 2013 and 2012, we recognized $0.5 million and $0.3 million, respectively, of interest income on our marketable debt securities. Unrealized gains and losses are temporary.

NOTE 7: Inventories

Inventory consists of the following components:

	March 31, 2013	December 31, 2012
	(In thousands)	
Crude oil	$512,441	$502,978
Other raw materials and unfinished products[1]	188,814	150,090
Finished products[2]	697,514	585,610
Process chemicals[3]	4,398	3,514
Repairs and maintenance supplies and other	67,633	77,440
Total inventory	$1,470,800	$1,319,632

(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 8: Environmental

We expensed $0.1 million and $14.3 million for the three months ended March 31, 2013 and 2012, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $87.9 million and $88.9 million at March 31, 2013 and December 31, 2012, respectively, of which $68.9 million and $72.6 million, respectively, were classified as other long-term liabilities. These accruals include remediation and monitoring costs expected to be incurred over an extended period of time (up to 30 years for certain projects).

NOTE 9: 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 March 31, 2013, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling $29.0 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement

HEP has a $550 million senior secured revolving credit facility that 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 March 31, 2013, HEP was in compliance with all of its covenants, had outstanding borrowings of $368.0 million and no outstanding letters of credit under the HEP Credit Agreement.

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.

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 for $40.0 million. 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)

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:

	March 31, 2013	December 31, 2012
	(In thousands)	
9.875% Senior Notes		
Principal	$286,812	$286,812
Unamortized discount	(7,139)	(7,468)
	279,673	279,344
6.875% Senior Notes		
Principal	150,000	150,000
Unamortized premium	5,700	5,910
	155,700	155,910
Financing Obligation	35,959	36,311
Total HollyFrontier long-term debt	471,332	471,565
HEP Credit Agreement	368,000	421,000
HEP 8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(1,525)	(1,602)
	148,475	148,398
HEP 6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(4,562)	(4,725)
	295,438	295,275
Total HEP long-term debt	811,913	864,673
Total long-term debt	$1,283,245	$1,336,238

We capitalized interest attributable to construction projects of $3.4 million and $1.5 million for the three months ended March 31, 2013 and 2012, respectively.

NOTE 10: Derivative Instruments and Hedging Activities

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps and futures contracts to mitigate price exposure with respect to:

- our inventory positions;
- natural gas purchases;

- costs of crude oil and related grade differentials;
- prices of refined products; and
- our refining margins.

Accounting Hedges

We have swap contracts serving as cash flow hedges against price risk on forecasted purchases of natural gas and WTI crude oil and forecasted sales of ultra-low sulfur diesel. We also have forward sales contracts that lock in the sales prices of future sales of refined product. These contracts have been designated as accounting hedges and are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to other comprehensive income. These fair value adjustments are later reclassified to earnings as the hedging instruments mature. Also on a quarterly basis, hedge ineffectiveness is measured by comparing the change in fair value of the swap contracts against the expected future cash inflows/outflows on the respective transaction being hedged. Any hedge ineffectiveness is also recognized in earnings.

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The following table presents the pre-tax effect on other comprehensive income ("OCI") and earnings due to fair value adjustments and maturities of commodity price swaps under hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Gain (Loss) Recognized in Earnings Due to Settlements		Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	
		Location	Amount	Location	Amount
		(In thousands)			
Three Months Ended March 31, 2013					
Commodity price swaps					
Change in fair value	$(10,404)	Sales and other revenues	$(19,185)	Sales and other revenues	$(356)
Loss reclassified to earnings due to settlements	27,200	Cost of products sold	(6,532)	Cost of products sold	3,131
Amortization of discontinued hedge reclassified to earnings	90	Operating expenses	(1,573)	Operating expenses	(365)
Total	$16,886		$(27,290)		$2,410
Three Months Ended March 31, 2012					
Commodity price swaps					
Change in fair value	$(140,121)	Sales and other revenues	$(34,125)	Sales and other revenues	$(1,330)
Loss reclassified to earnings due to settlements	(16,416)	Cost of products sold	50,541		
Total	$(156,537)		$16,416		$(1,330)

As of March 31, 2013, we have the following notional contract volumes related to outstanding derivative instruments serving as cash flow hedges against price risk on forecasted purchases of natural gas and crude oil and sales of refined products:

		Notional Contract Volumes by Year of Maturity					
Derivative Instrument	Total Outstanding Notional	2013	2014	2015	2016	2017	Unit of Measure
Commodity Price Swaps:							
Natural gas - long	45,600,000	7,200,000	9,600,000	9,600,000	9,600,000	9,600,000	MMBTU
WTI crude oil - long	8,340,000	7,975,000	365,000	—	—	—	Barrels
Ultra-low sulfur diesel - short	8,340,000	7,975,000	365,000	—	—	—	Barrels
Forward sales - diesel and gasoline	535,000	535,000	—	—	—	—	Barrels

In the first quarter of 2013, we dedesignated certain commodity price swaps (long positions) that previously received hedge accounting treatment. These contracts now serve as economic hedges against price risk on forecasted natural gas purchases totaling 45,600,000 MMBTU's to be purchased ratably through 2017. As of March 31, 2013, we have an unrealized loss of $5.1 million classified as OCI that relates to the application of hedge accounting prior to dedesignation that will be amortized as a charge to operating expenses as the contracts mature.

Economic Hedges

We also have swap contracts that serve as economic hedges (derivatives used for risk management, but not designated as accounting hedges) to fix our purchase price on forecasted natural gas and crude oil and other feedstock purchases, and to lock in the spread between WCS and WTI crude oil and between WTS and WTI crude oil on forecasted purchases of WCS and WTS. Also, we have NYMEX futures contracts to lock in prices on purchases of inventory. These contracts are measured quarterly at fair value with offsetting adjustments (gains/losses) recorded directly to income.

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The following table presents the pre-tax effect on income due to maturities and fair value adjustments of our economic hedges:

Location of Gain (Loss) Recognized in Income	Three Months Ended March 31, 2013	2012
	(In thousands)	
Cost of products sold	$33,592	$(14,994)
Operating expenses	(4,993)	(1,701)
Total	$28,599	$(16,695)

As of March 31, 2013, we have the following notional contract volumes related to our outstanding derivative contracts serving as economic hedges:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity 2013	2014	2015	2016	2017	Unit of Measure
Commodity price swap (gasoline) - long	125,000	125,000	—	—	—	—	Barrels
Commodity price swap (gasoline) - short	125,000	125,000	—	—	—	—	Barrels
Commodity price swap (WCS spread) - long	5,362,500	5,362,500	—	—	—	—	Barrels
Commodity price swap (WTS spread) - long	1,960,000	1,960,000	—	—	—	—	Barrels
Commodity price swap (natural gas) - long	45,600,000	7,200,000	9,600,000	9,600,000	9,600,000	9,600,000	MMBTU
Commodity price swap (natural gas) - short	45,600,000	7,200,000	9,600,000	9,600,000	9,600,000	9,600,000	MMBTU
NYMEX futures (WTI) - long	234,000	234,000	—	—	—	—	Barrels
NYMEX futures (WTI) - short	1,178,000	1,178,000	—	—	—	—	Barrels
Physical contracts - long	540,000	540,000	—	—	—	—	Barrels
Physical contracts - short	540,000	540,000	—	—	—	—	Barrels

Interest Rate Risk Management

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

As of March 31, 2013, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on $305.0 million in credit agreement advances. The first interest rate swap effectively converts $155.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.50% as of March 31, 2013, which equaled an effective interest rate of 3.49%. This swap matures in February 2016. HEP has two additional interest rate swaps with identical terms which effectively convert $150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.50% as of March 31, 2013, which equaled an effective interest rate of 3.24%. Both of these swap contracts mature in July 2017. All of these swap contracts have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

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The following table presents the pre-tax effect on other comprehensive income and earnings due to fair value adjustments and maturities of HEP's interest rate swaps under cash flow hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Loss Recognized in Earnings Due to Settlements	
		Location	Amount
	(In thousands)		
Three Months Ended March 31, 2013			
Interest rate swaps			
Change in fair value	$58		
Loss reclassified to earnings due to settlements	504	Interest expense	$(1,353)
Amortization of discontinued hedge reclassified to earnings	849		
Total	$1,411		$(1,353)
Three Months Ended March 31, 2012			
Interest rate swaps			
Change in fair value	$(578)		
Loss reclassified to earnings due to settlements	224	Interest expense	$(1,498)
Amortization of discontinued hedge reclassified to earnings	1,274		
Total	$920		$(1,498)

The following table presents the fair value and balance sheet locations of our outstanding derivative instruments. These amounts are presented on a gross basis with offsetting balances that reconcile to a net asset or liability position in our consolidated balance sheets. We present on a net basis to reflect the net settlement of these positions in accordance with provisions of our master netting arrangements.

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
		(In thousands)				
March 31, 2013						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$—	$24,630	$(27,144)	$(2,514)
Forward sales contracts	1,468	—	1,468	—	—	—
Interest rate swap contracts	—	—	—	2,868	—	2,868
	$1,468	$—	$1,468	$27,498	$(27,144)	$354
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$12,493	$(1,842)	$10,651	$12,178	$(4,171)	$8,007

NYMEX futures contracts	—	—	—	5,837	—	5,837
	$12,493	$(1,842)	$10,651	$18,015	$(4,171)	$13,844
Total net balance			$12,119			$14,198
Balance sheet classification:	Prepayment and other		$12,119	Accrued liabilities		$562
				Other long-term liabilities		13,636
			$12,119			$14,198

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	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
		(In thousands)				
December 31, 2012						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$—	$37,828	$(17,383)	$20,445
Interest rate swap contracts	—	—	—	3,430	—	3,430
	$—	$—	$—	$41,258	$(17,383)	$23,875
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$—	$46,154	$—	$46,154
NYMEX futures contracts	—	—	—	5,563	—	5,563
	$—	$—	$—	$51,717	$—	$51,717
Total net balance			$—			$75,592
Balance sheet classification:				Accrued liabilities		$62,388
				Other long-term liabilities		13,204
						$75,592

At March 31, 2013, we had a pre-tax net unrealized loss of $4.3 million classified in accumulated other comprehensive income that relates to all accounting hedges. Assuming commodity prices and interest rates remain unchanged, an unrealized gain of approximately $5.3 million will be effectively transferred from accumulated other comprehensive income into the statement of income as the hedging instruments mature over the next twelve-month period.

NOTE 11: Equity

Changes to equity during the three months ended March 31, 2013 are presented below:

	HollyFrontier Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2012	$6,052,954	$589,704	$6,642,658
Net income	333,669	9,702	343,371

Dividends	(163,388)	—	(163,388)
Distributions to noncontrolling interest holders	—	(15,288)	(15,288)
Other comprehensive income, net of tax	11,759	792	12,551
Allocated equity on HEP common unit issuances, net of tax	54,011	60,145	114,156
Equity-based compensation	7,457	1,123	8,580
Excess tax benefit attributable to equity-based compensation	744	—	744
Purchase of treasury stock [1]	(11,413)	—	(11,413)
Purchase of HEP units for restricted grants	—	(2,924)	(2,924)
Balance at March 31, 2013	$6,285,793	$643,254	$6,929,047

(1) Includes 31,141 shares withheld under the terms of stock-based compensation agreements to provide funds for the payment of payroll and income taxes due at the vesting of share-based awards.

We have a Board approved repurchase program that authorizes us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions, corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of March 31, 2013, we had remaining authorization to repurchase up to $494.4 million under this stock repurchase program.

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 12: Other Comprehensive Income (Loss)

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

	Before-Tax	Tax Expense (Benefit)	After-Tax
	(In thousands)		
Three Months Ended March 31, 2013			
Unrealized gain, net of reclassifications from sale or maturity, on available-for-sale securities	$16	$8	$8
Unrealized gain on hedging activities	18,297	6,809	11,488
Actuarial loss on post-retirement healthcare plan reclassified to net income upon partial plan settlement	1,726	671	1,055
Other comprehensive income	20,039	7,488	12,551
Less other comprehensive income attributable to noncontrolling interest	792	—	792
Other comprehensive income attributable to HollyFrontier stockholders	$19,247	$7,488	$11,759
Three Months Ended March 31, 2012			
Unrealized gain, net of reclassifications from sale or maturity, on available-for-sale securities	$188	$74	$114
Unrealized loss on hedging activities	(155,615)	(60,744)	(94,871)
Other comprehensive loss	(155,427)	(60,670)	(94,757)
Less other comprehensive income attributable to noncontrolling interest	537	—	537
Other comprehensive loss attributable to HollyFrontier stockholders	$(155,964)	$(60,670)	$(95,294)

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

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following table presents the income statement line item effects for reclassifications out of accumulated other comprehensive income ("AOCI"):

AOCI Components	Gain (Loss) Reclassified From AOCI (In thousands)		Income Statement Line Item
Three Months Ended March 31, 2013			
Securities available-for-sale	$3		Interest income
	1		Income tax expense
	$2		Net of tax
Hedging instruments:			
Commodity price swaps	$(19,185	)	Sales and other revenues
	(6,532	)	Cost of products sold
	(1,573	)	Operating expenses
Interest rate swaps	(1,353	)	Interest expense
	(28,643	)	
	(10,823	)	Income tax benefit
	(17,820	)	Net of tax
	820		Noncontrolling interest
	$(17,000	)	Net of tax and noncontrolling interest
Retiree medical obligation	$(84	)	Cost of products sold
	(1,549	)	Operating expenses
	(93	)	General and administrative expenses
	(1,726	)	
	(671	)	Income tax benefit
	$(1,055	)	Net of tax
Total reclassifications for the period	$(18,053	)	
Three Months Ended March 31, 2012			
Securities available-for-sale	$117		Interest income
	46		Income tax expense
	$71		Net of tax
Hedging instruments			
Commodity price swaps	$(34,125	)	Sales and other revenues
	50,541		Cost of products sold
Interest rate swaps	(1,498	)	Interest expense
	14,918		
	6,143		Income tax expense
	8,775		Net of tax
	873		Noncontrolling interest

	$9,648	Net of tax and noncontrolling interest
Total reclassifications for the period	$9,719	

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

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

	March 31, 2013	December 31, 2012
	(In thousands)	
Pension obligation	$(23,973)	$(23,973)
Retiree medical obligation	29,660	28,605
Unrealized gain (loss) on available-for-sale securities	1	(7)
Unrealized (loss) on hedging activities, net of noncontrolling interest	(2,354)	(13,050)
Accumulated other comprehensive income (loss)	$3,334	$(8,425)

NOTE 13: Retirement Plan

We sponsor a non-contributory defined benefit retirement plan that covers certain employees and is fully frozen. In 2012, our Compensation Committee, pursuant to authority delegated to it by the Board of Directors, approved the termination of the HollyFrontier Corporation Pension Plan (the "Plan"). Accordingly, our remaining liability under the Plan is expected to be funded in 2013. Our actual obligations under the Plan are contingent upon the timing of the pension plan termination as well as participant settlement obligations. We expect to record an additional expense on termination of the Plan at the date we are released from the liability, including the amount of actuarial loss currently recorded as accumulated other comprehensive income ($37.6 million, $23.0 million after-tax) at March 31, 2013 plus an amount equal to any contribution we make to the Plan in excess of the $19.3 million accrued pension liability we have recorded at March 31, 2013.

The net periodic pension expense consisted of the following components:

	Three Months Ended March 31, 2013	2012
	(In thousands)	
Service cost – benefit earned during the period	$—	$170
Interest cost on projected benefit obligations	899	991
Expected return on plan assets	(46)	(950)
Amortization of prior service cost	—	17
Amortization of net loss	693	483
Estimated effect of curtailment	—	225
Net periodic pension expense	$1,546	$936

The expected long-term annual rate of return on plan assets is 0.25%, which is the rate used in measuring 2013 net periodic benefit costs.

In 2012, we established a program for plan participants whose benefits pursuant to the defined benefit plan were frozen. The program provides for payments after year-end for each of the next three years provided the employee remains with us. The payments are based on each employee's years of service and eligible salary. For the three months ended March 31, 2013 and 2012, we recognized transition benefit costs of $2.9 million and $3.4 million, respectively, associated with transition to the new defined contribution plan.

We have a post-retirement healthcare and other benefits plan that is available to certain of our employees who satisfy certain age and service requirements.The net periodic benefit expense of this plan consisted of the following components:

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Service cost – benefit earned during the period	$278	$475
Interest cost on projected benefit obligations	159	875
Amortization of prior service credit	(1,474)	(550)
Amortization of net loss	31	75
Actuarial loss on post-retirement healthcare plan reclassified to net income upon partial plan settlement	1,726	—
Net periodic pension expense	$720	$875

In the first quarter of 2013, we settled a portion of our post-retirement medical obligation. Upon settlement, we reclassified a $1.7 million pretax loss out of accumulated other comprehensive income that was recognized as a charge to net income.

NOTE 14: Contingencies

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

NOTE 15: Segment Information

Our operations are 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 represents the operations of the El Dorado, Tulsa, Navajo, Cheyenne and Woods Cross Refineries and NK Asphalt (aggregated as a reportable segment). Refining activities involve 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 Mid-Continent, Southwest and Rocky Mountain regions of the United States. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refineries that are marketed throughout North America and are distributed in Central and South America. NK Asphalt operates various asphalt terminals in Arizona and New Mexico.

The HEP segment includes all of the operations of HEP, a consolidated VIE, which owns and operates logistics assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. The HEP segment also includes a 75% interest in UNEV (a consolidated subsidiary of HEP) and a 25% interest in the SLC Pipeline. 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, 2012.

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	Refining	HEP [1]	Corporate and Other	Consolidations and Eliminations	Consolidated Total
	(In thousands)				
Three Months Ended March 31, 2013					
Sales and other revenues	$4,692,426	$76,484	$563	$(61,684)	$4,707,789
Depreciation and amortization	$57,170	$13,749	$1,050	$(207)	$71,762
Income (loss) from operations	$542,202	$33,474	$(25,972)	$(509)	$549,195
Capital expenditures	$63,632	$5,013	$3,319	$—	$71,964
Three Months Ended March 31, 2012					
Sales and other revenues	$4,919,737	$67,577	$156	$(55,732)	$4,931,738
Depreciation and amortization	$41,721	$13,395	$1,193	$(207)	$56,102
Income (loss) from operations	$414,943	$32,113	$(26,975)	$(517)	$419,564
Capital expenditures	$45,534	$14,254	$1,599	$—	$61,387
March 31, 2013					
Cash, cash equivalents and investments in marketable securities	$20	$18,193	$2,524,923	$—	$2,543,136
Total assets	$6,946,525	$1,428,372	$2,671,573	$(350,298)	$10,696,172
Long-term debt	$—	$811,913	$487,092	$(15,760)	$1,283,245
December 31, 2012					
Cash, cash equivalents and investments in marketable securities	$2,101	$5,237	$2,386,063	$—	$2,393,401
Total assets	$6,702,872	$1,426,800	$2,531,967	$(332,642)	$10,328,997
Long-term debt	$—	$864,673	$487,472	$(15,907)	$1,336,238

(1) HEP acquired our 75% interest in UNEV in July 2012. As a result, we have recast our HEP segment information for the three months ended March 31, 2012 to include the UNEV Pipeline operations as a consolidated subsidiary of HEP. The UNEV Pipeline operations were previously presented under Corporate and Other.

HEP segment revenues from external customers were $12.9 million and $11.9 million for the three months ended March 31, 2013 and 2012, respectively.

NOTE 16: Supplemental Guarantor/Non-Guarantor Financial Information

Our obligations under the HollyFrontier 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 39% ownership interest at March 31, 2013, 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 condensed consolidating financial information is provided for HollyFrontier 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."

HEP acquired our 75% interest in UNEV in July 2012. As a result, we have recast our HEP segment information for the three months ended March 31, 2012 to include the UNEV Pipeline operations as a consolidated subsidiary of HEP. UNEV was previously presented as a Non-Guarantor Restricted Subsidiary.

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

March 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)							
ASSETS								
Current assets:								
Cash and cash equivalents	$1,854,247	$—	$2	$—	$1,854,249	$18,193	$—	$1,872,442
Marketable securities	665,685	9	—	—	665,694	—	—	665,694
Accounts receivable, net	4,766	650,601	7,763	—	663,130	37,129	(43,735)	656,524
Intercompany accounts receivable (payable)	(765,537)	499,248	266,289	—	—	—	—	—
Inventories	—	1,469,309	—	—	1,469,309	1,491	—	1,470,800
Income taxes receivable	37,904	—	—	—	37,904	—	—	37,904
Prepayments and other	22,859	39,266	—	—	62,125	1,984	(4,163)	59,946
Total current assets	1,819,924	2,658,433	274,054	—	4,752,411	58,797	(47,898)	4,763,310
Properties, plants and equip, net	25,019	2,468,535	—	—	2,493,554	1,005,577	(284,933)	3,214,198
Marketable securities (long-term)	5,000	—	—	—	5,000	—	—	5,000
Investment in subsidiaries	5,909,650	175,693	—	(6,085,343)	—	—	—	—
Intangibles and other assets	17,096	2,334,619	40,418	(25,000)	2,367,133	363,998	(17,467)	2,713,664
Total assets	$7,776,689	$7,637,280	$314,472	$(6,110,343)	$9,618,098	$1,428,372	$(350,298)	$10,696,172
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	$68,099	$1,294,946	$—	$—	$1,363,045	$12,346	$(35,972)	$1,339,419
	151,403	—	—	—	151,403	—	—	151,403

Income taxes payable								
Accrued liabilities	52,552	63,281	1,200	—	117,033	14,135	(4,163)	127,005
Deferred income tax liabilities	149,127	—	—	—	149,127	—	—	149,127
Total current liabilities	421,181	1,358,227	1,200	—	1,780,608	26,481	(40,135)	1,766,954
Long-term debt	460,374	35,958	—	(25,000)	471,332	811,913	—	1,283,245
Liability to HEP	—	254,789	—	—	254,789	—	(254,789)	—
Deferred income tax liabilities	549,151	—	—	—	549,151	4,951	—	554,102
Other long-term liabilities	57,168	78,656	—	—	135,824	30,193	(3,193)	162,824
Investment in HEP	—	—	137,579	—	137,579	—	(137,579)	—
Equity – HollyFrontier	6,288,815	5,909,650	175,693	(6,085,343)	6,288,815	453,256	(456,278)	6,285,793
Equity – noncontrolling interest	—	—	—	—	—	101,578	541,676	643,254
Total liabilities and equity	$7,776,689	$7,637,280	$314,472	$(6,110,343)	$9,618,098	$1,428,372	$(350,298)	$10,696,172

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

December 31, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)							
ASSETS								
Current assets:								
Cash and cash equivalents	$1,748,808	$3,652	$2	$—	$1,752,462	$5,237	$—	$1,757,699
Marketable securities	630,579	7	—	—	630,586	—	—	630,586
Accounts receivable, net	4,788	627,262	—	—	632,050	38,097	(35,917)	634,230
Intercompany accounts receivable (payable)	(546,655)	285,291	261,364	—	—	—	—	—
Inventories	—	1,318,373	—	—	1,318,373	1,259	—	1,319,632
Income taxes receivable	74,957	—	—	—	74,957	—	—	74,957
Prepayments and other	21,867	34,667	—	—	56,534	2,360	(5,733)	53,161
Total current assets	1,934,344	2,269,252	261,366	—	4,464,962	46,953	(41,650)	4,470,265
Properties, plants and equip, net	24,209	2,444,398	—	—	2,468,607	1,014,556	(288,463)	3,194,700
Marketable securities (long-term)	5,116	—	—	—	5,116	—	—	5,116
Investment in subsidiaries	5,251,396	74,120	—	(5,325,516)	—	—	—	—
Intangibles and other assets	11,825	2,284,329	25,000	(25,000)	2,296,154	365,291	(2,529)	2,658,916
Total assets	$7,226,890	$7,072,099	$286,366	$(5,350,516)	$9,234,839	$1,426,800	$(332,642)	$10,328,997
LIABILITIES AND EQUITY								
Current liabilities:								
Accounts payable	$1,941	$1,336,097	$—	$—	$1,338,038	$12,030	$(35,917)	$1,314,151
	—	—	—	—	—	—	—	—

Income taxes payable								
Accrued liabilities	71,226	105,298	581	—	177,105	23,705	(5,733)	195,077
Deferred income tax liabilities	145,225	—	(9)	—	145,216	—	—	145,216
Total current liabilities	218,392	1,441,395	572	—	1,660,359	35,735	(41,650)	1,654,444
Long-term debt	460,254	36,311	—	(25,000)	471,565	864,673	—	1,336,238
Liability to HEP	—	257,777	—	—	257,777	—	(257,777)	—
Deferred income tax liabilities	530,544	—	1,175	—	531,719	—	4,951	536,670
Other long-term liabilities	48,757	85,220	—	—	133,977	28,683	(3,673)	158,987
Investment in HEP	—	—	210,499	—	210,499	—	(210,499)	—
Equity – HollyFrontier	5,968,943	5,251,396	74,120	(5,325,516)	5,968,943	382,207	(298,196)	6,052,954
Equity – noncontrolling interest	—	—	—	—	—	115,502	474,202	589,704
Total liabilities and equity	$7,226,890	$7,072,099	$286,366	$(5,350,516)	$9,234,839	$1,426,800	$(332,642)	$10,328,997

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended March 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)							
Sales and other revenues	$531	$4,692,426	$32	$—	$4,692,989	$76,484	$(61,684)	$4,707,789
Operating costs and expenses:								
Cost of products sold	—	3,853,128	(92)	133	3,853,169	—	(60,634)	3,792,535
Operating expenses	—	239,423	(19)	—	239,404	26,029	(334)	265,099
General and administrative	24,131	1,775	60	—	25,966	3,232	—	29,198
Depreciation and amortization	926	60,620	—	—	61,546	13,749	(3,533)	71,762
Total operating costs and expenses	25,057	4,154,946	(51)	133	4,180,085	43,010	(64,501)	4,158,594
Income (loss) from operations	(24,526)	537,480	83	(133)	512,904	33,474	2,817	549,195
Other income (expense):								
Earnings of equity method investments	550,891	11,614	11,992	(563,103)	11,394	657	(11,992)	59
Interest income (expense)	(7,221)	1,797	137	152	(5,135)	(12,382)	(2,272)	(19,789)
	543,670	13,411	12,129	(562,951)	6,259	(11,725)	(14,264)	(19,730)
Income before income taxes	519,144	550,891	12,212	(563,084)	519,163	21,749	(11,447)	529,465
Income tax provision	186,039	—	—	—	186,039	55	—	186,094
Net income	333,105	550,891	12,212	(563,084)	333,124	21,694	(11,447)	343,371
Less net income attributable to noncontrolling interest	—	—	—	—	—	2,890	6,812	9,702
Net income attributable to	$333,105	$550,891	$12,212	$(563,084)	$333,124	$18,804	$(18,259)	$333,669

HollyFrontier stockholders Comprehensive income attributable to HollyFrontier stockholders	$344,864	$568,396	$12,831	$(581,208)	$344,883	$19,423	$(18,878)	$345,428

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended March 31, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	Eliminations	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)							
Sales and other revenues	$99	$4,919,737	$57	$—	$4,919,893	$67,577	$(55,732)	$4,931,738
Operating costs and expenses:								
Cost of products sold	—	4,241,301	—	491	4,241,792	—	(54,875)	4,186,917
Operating expenses	—	222,115	—	(385)	221,730	20,030	(133)	241,627
General and administrative	24,973	501	15	—	25,489	2,039	—	27,528
Depreciation and amortization	1,103	45,174	—	—	46,277	13,395	(3,570)	56,102
Total operating costs and expenses	26,076	4,509,091	15	106	4,535,288	35,464	(58,578)	4,512,174
Income (loss) from operations	(25,977)	410,646	42	(106)	384,605	32,113	2,846	419,564
Other income (expense):								
Earnings of equity method investments	421,061	8,502	8,375	(429,677)	8,261	831	(8,375)	717
Interest income (expense)	(14,023)	1,913	199	504	(11,407)	(19,170)	(2,278)	(32,855)
	407,038	10,415	8,574	(429,173)	(3,146)	(18,339)	(10,653)	(32,138)
Income before income taxes	381,061	421,061	8,616	(429,279)	381,459	13,774	(7,807)	387,426
Income tax provision	140,331	—	—	—	140,331	75	—	140,406
Net income	240,730	421,061	8,616	(429,279)	241,128	13,699	(7,807)	247,020
Less net income attributable to noncontrolling interest	—	—	—	—	—	(557)	5,881	5,324
	$240,730	$421,061	$8,616	$(429,279)	$241,128	$14,256	$(13,688)	$241,696

Net income attributable to HollyFrontier stockholders								
Comprehensive income attributable to HollyFrontier stockholders	$ 145,436	$ 264,909	$ 9,000	$ (273,511)	$ 145,834	$ 14,640	$ (14,072)	$ 146,402

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2013	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)						
Cash flows from operating activities	$176,731	$ 58,316	$ 1,499	$ 236,546	$ 29,438	$ (17,421)	$ 248,563
Cash flows from investing activities							
Additions to properties, plants and equip	(1,736)	(65,215)	—	(66,951)	—	—	(66,951)
Additions to properties, plants and equip – HEP	—	—	—	—	(5,013)	—	(5,013)
Proceeds from sale of property	—	—	—	—	2,290	—	2,290
Purchases of marketable securities	(178,251)	—	—	(178,251)	—	—	(178,251)
Sales and maturities of marketable securities	143,280	—	—	143,280	—	—	143,280
	(36,707)	(65,215)	—	(101,922)	(2,723)	—	(104,645)
Cash flows from financing activities							
Net repayments under credit agreement – HEP	—	—	—	—	(53,000)	—	(53,000)
Proceeds from sale of HEP common units	73,444	—	—	73,444	—	—	73,444
Proceeds from common unit offerings - HEP	—	—	—	—	73,444	—	73,444
Purchase of treasury stock	(6,610)	—	—	(6,610)	—	—	(6,610)
Contribution from general partner	—	—	(1,499)	(1,499)	1,499	—	—
Dividends	(102,163)	—	—	(102,163)	—	—	(102,163)
Distributions to noncontrolling interest	—	—	—	—	(32,709)	17,421	(15,288)
Excess tax benefit from equity-based compensation	744	—	—	744	—	—	744
Purchase of units for incentive grants - HEP	—	—	—	—	(2,719)	—	(2,719)
Other	—	3,247	—	3,247	(274)	—	2,973
	(34,585)	3,247	(1,499)	(32,837)	(13,759)	17,421	(29,175)

Cash and cash equivalents							
Increase (decrease) for the period	105,439	(3,652)	—	101,787	12,956	—	114,743
Beginning of period	1,748,808	3,652	2	1,752,462	5,237	—	1,757,699
End of period	$ 1,854,247	$ —	$ 2	$ 1,854,249	$ 18,193	$ —	$ 1,872,442

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2012	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Restricted Subsidiaries	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Eliminations	Consolidated
	(In thousands)						
Cash flows from operating activities	$253,124	$ (3,659)	$ —	$ 249,465	$ 19,296	$ (14,856)	$ 253,905
Cash flows from investing activities:							
Additions to properties, plants and equip	(1,019)	(46,114)	—	(47,133)	—	—	(47,133)
Additions to properties, plants and equip – HEP	—	—	—	—	(14,254)	—	(14,254)
Investment in Sabine Biofuels	—	(1,200)	—	(1,200)	—	—	(1,200)
Purchases of marketable securities	(106,573)	—	—	(106,573)	—	—	(106,573)
Sales and maturities of marketable securities	100,480	—	—	100,480	—	—	100,480
	(7,112)	(47,314)	—	(54,426)	(14,254)	—	(68,680)
Cash flows from financing activities:							
Net borrowings under credit agreement – HEP	—	—	—	—	(45,000)		