

HOLLY CORP  
Form 10-Q  
May 07, 2010

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2010**

**OR**

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

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

**Commission File Number 1-3876**

**HOLLY CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

75-1056913

(State or other jurisdiction of  
incorporation or organization)

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

100 Crescent Court, Suite 1600  
Dallas, Texas

75201-6915

(Address of principal executive offices)

(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

53,195,521 shares of Common Stock, par value \$.01 per share, were outstanding on April 30, 2010.



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**PART I. FINANCIAL INFORMATION**

**FORWARD-LOOKING STATEMENTS**

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

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

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

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements included in this Form 10-Q that are referred to above. This summary discussion should be read in conjunction with the discussion of risk factors and other cautionary statements under the heading Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 and in conjunction with the discussion in this Form 10-Q in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading Liquidity and Capital Resources. All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



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**DEFINITIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**LPG** means liquid petroleum gases.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(In thousands, except share data)

|   | <b>March 31,<br/>2010</b><br>(Unaudited) | <b>December 31,<br/>2009</b> |
|---|--|------------------------------|
| <b>ASSETS</b>   |  |                              |
| <b>Current assets:</b>  |  |                              |
| Cash and cash equivalents <i>(HEP: \$16,609 and \$2,508, respectively)</i>                        | \$ 93,289                                | \$ 124,596                   |
| Marketable securities   | 1,467                                    | 1,223                        |
| Accounts receivable: Product and transportation <i>(HEP: \$20,456 and \$18,767, respectively)</i> | 305,631                                  | 292,310                      |
| Crude oil resales   | 577,909                                  | 470,145                      |
|   | 883,540                                  | 762,455                      |
| Inventories: Crude oil and refined products   | 376,113                                  | 259,582                      |
| Materials and supplies <i>(HEP: \$165 and \$165)</i>  | 44,909                                   | 43,931                       |
|   | 421,022                                  | 303,513                      |
| Income taxes receivable   | 30,248                                   | 38,072                       |
| Prepayments and other <i>(HEP: \$349 and \$574, respectively)</i>                                 | 81,377                                   | 50,957                       |
| Current assets of discontinued operations <i>(HEP: \$2,195)</i>                                   |  | 2,195                        |
| <b>Total current assets</b>   | <b>1,510,943</b>                         | <b>1,283,011</b>             |
| Properties, plants and equipment, at cost <i>(HEP: \$531,427 and \$491,999, respectively)</i>     | 2,032,621                                | 2,001,855                    |
| Less accumulated depreciation <i>(HEP: \$(39,726) and \$(33,478), respectively)</i>               | (393,628)                                | (371,885)                    |
|   | 1,638,993                                | 1,629,970                    |
| Other assets: Turnaround costs  | 56,227                                   | 53,463                       |
| Goodwill <i>(HEP: \$81,602 and \$81,602)</i>  | 81,602                                   | 81,602                       |
| Intangibles and other <i>(HEP: \$75,140 and \$77,443, respectively)</i>                           | 94,562                                   | 97,893                       |
|   | 232,391                                  | 232,958                      |
| <b>Total assets</b>   | <b>\$ 3,382,327</b>                      | <b>\$ 3,145,939</b>          |
| <b>LIABILITIES AND EQUITY</b>   |  |                              |
| <b>Current liabilities:</b>   |  |                              |
| Accounts payable <i>(HEP: \$6,216 and \$6,211, respectively)</i>                                  | \$ 1,155,517                             | \$ 975,155                   |
| Accrued liabilities <i>(HEP: \$13,222 and \$13,594, respectively)</i>                             | 57,547                                   | 49,957                       |

|  |              |              |
|--|--------------|--------------|
| <b>Total current liabilities</b>   | 1,213,064    | 1,025,112    |
| Long-term debt Holly Corporation   | 328,268      | 328,260      |
| Long-term debt Holly Energy Partners ( <i>HEP: \$492,327 and \$379,198, respectively</i> )   | 492,327      | 379,198      |
| Deferred income taxes  | 102,870      | 124,585      |
| Other long-term liabilities ( <i>HEP: \$11,366 and \$12,349, respectively</i> )  | 82,287       | 81,003       |
| <b>Equity:</b>   |              |              |
| <b>Holly Corporation stockholders equity:</b>  |              |              |
| Preferred stock, \$1.00 par value 1,000,000 shares authorized; none issued   |              |              |
| Common stock \$.01 par value 160,000,000 shares authorized; 76,455,041 and 76,359,006 shares issued as of March 31, 2010 and December 31, 2009, respectively | 764          | 764          |
| Additional capital   | 188,019      | 195,565      |
| Retained earnings  | 1,098,257    | 1,134,341    |
| Accumulated other comprehensive loss   | (25,200)     | (25,700)     |
| Common stock held in treasury, at cost 23,259,520 and 23,292,737 shares as of March 31, 2010 and December 31, 2009, respectively                             | (678,483)    | (685,931)    |
| <b>Total Holly Corporation stockholders equity</b>   | 583,357      | 619,039      |
| <b>Noncontrolling interest</b>   | 580,154      | 588,742      |
| <b>Total equity</b>  | 1,163,511    | 1,207,781    |
| <b>Total liabilities and equity</b>  | \$ 3,382,327 | \$ 3,145,939 |

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

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

(Unaudited)

(In thousands, except per share data)

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2010</b>               | <b>2009</b> |
| <b>Sales and other revenues</b>  | \$ 1,874,290              | \$ 648,030  |
| <b>Operating costs and expenses:</b>   |                           |             |
| Cost of products sold (exclusive of depreciation and amortization)               | 1,723,864                 | 511,654     |
| Operating expenses (exclusive of depreciation and amortization)                  | 127,544                   | 66,748      |
| General and administrative expenses (exclusive of depreciation and amortization) | 17,869                    | 11,756      |
| Depreciation and amortization  | 27,757                    | 20,081      |
| <b>Total operating costs and expenses</b>  | 1,897,034                 | 610,239     |
| <b>Income (loss) from operations</b>   | (22,744)                  | 37,791      |
| <b>Other income (expense):</b>   |                           |             |
| Equity in earnings of SLC Pipeline   | 481                       | 175         |
| Interest income  | 59                        | 2,196       |
| Interest expense   | (17,722)                  | (6,239)     |
|  | (17,182)                  | (3,868)     |
| <b>Income (loss) from continuing operations before income taxes</b>              | (39,926)                  | 33,923      |
| Income tax provision:  |                           |             |
| Current  | 5,361                     | 9,878       |
| Deferred   | (22,033)                  | 1,971       |
|  | (16,672)                  | 11,849      |
| <b>Income (loss) from continuing operations</b>                                  | (23,254)                  | 22,074      |
| <b>Income from discontinued operations, net of taxes</b>                         |                           | 1,331       |
| <b>Net income (loss)</b>   | (23,254)                  | 23,405      |
| Less net income attributable to noncontrolling interest                          | 4,840                     | 1,460       |
| <b>Net income (loss) attributable to Holly Corporation stockholders</b>          | \$ (28,094)               | \$ 21,945   |

**Earnings attributable to Holly Corporation stockholders:**

|  |             |           |
|--|-------------|-----------|
| Income (loss) from continuing operations | \$ (28,094) | \$ 21,553 |
| Income from discontinued operations      |             | 392       |

|                   |             |           |
|-------------------|-------------|-----------|
| Net income (loss) | \$ (28,094) | \$ 21,945 |
|-------------------|-------------|-----------|

**Earnings per share attributable to Holly Corporation stockholders basic and diluted:**

|  |           |         |
|--|-----------|---------|
| Income (loss) from continuing operations | \$ (0.53) | \$ 0.43 |
| Income from discontinued operations      |           | 0.01    |

|                   |           |         |
|-------------------|-----------|---------|
| Net income (loss) | \$ (0.53) | \$ 0.44 |
|-------------------|-----------|---------|

|   |         |         |
|---|---------|---------|
| <b>Cash dividends declared per common share</b> | \$ 0.15 | \$ 0.15 |
|---|---------|---------|

**Average number of common shares outstanding:**

|         |        |        |
|---------|--------|--------|
| Basic   | 53,094 | 50,042 |
| Diluted | 53,232 | 50,171 |

See accompanying notes.

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

|   | <b>Three Months Ended</b> |                           |
|---|---------------------------|---------------------------|
|   | <b>March 31,</b>          |                           |
|   | <b>2010</b>               | <b>2009<sup>(1)</sup></b> |
| <b>Cash flows from operating activities:</b>  |                           |                           |
| Net income (loss)   | \$ (23,254)               | \$ 23,405                 |
| Adjustments to reconcile net income (loss) to net cash used for operating activities: |                           |                           |
| Depreciation and amortization   | 27,757                    | 20,321                    |
| SLC Pipeline earnings in excess of distributions                                      | (481)                     | (175)                     |
| Deferred income taxes   | (22,033)                  | 1,971                     |
| Equity based compensation expense   | 2,907                     | 1,447                     |
| Change in fair value interest rate swaps  | 1,464                     | 216                       |
| Noncontrolling interest in earnings of Rio Grande Pipeline Company                    |                           | 495                       |
| (Increase) decrease in current assets:  |                           |                           |
| Accounts receivable   | (121,085)                 | (15,423)                  |
| Inventories   | (117,509)                 | (37,189)                  |
| Income taxes receivable   | 7,824                     | 509                       |
| Prepayments and other   | (30,420)                  | 494                       |
| Current assets of discontinued operations   | 2,195                     |                           |
| Increase (decrease) in current liabilities:   |                           |                           |
| Accounts payable  | 180,298                   | 9,597                     |
| Accrued liabilities   | 7,590                     | 14,797                    |
| Turnaround expenditures   | (7,257)                   | (26,983)                  |
| Other, net  | 1,980                     | 4,203                     |
| <b>Net cash used for operating activities</b>   | <b>(90,024)</b>           | <b>(2,315)</b>            |
| <b>Cash flows from investing activities:</b>  |                           |                           |
| Additions to properties, plants and equipment Holly Corporation                       | (29,187)                  | (88,658)                  |
| Additions to properties, plants and equipment Holly Energy Partners                   | (1,911)                   | (10,570)                  |
| Investment in SLC Pipeline Holly Energy Partners                                      |                           | (25,500)                  |
| Purchases of marketable securities  |                           | (128,707)                 |
| Sales and maturities of marketable securities   |                           | 183,096                   |
| <b>Net cash used for investing activities</b>   | <b>(31,098)</b>           | <b>(70,339)</b>           |
| <b>Cash flows from financing activities:</b>  |                           |                           |
| Borrowings under credit agreement Holly Corporation                                   | 310,000                   | 55,000                    |
| Repayments under credit agreement Holly Corporation                                   | (310,000)                 |                           |
| Borrowings under credit agreement Holly Energy Partners                               | 33,000                    | 53,000                    |
| Repayments under credit agreement Holly Energy Partners                               | (68,000)                  | (13,000)                  |
| Proceeds from issuance of 8.25% senior notes Holly Energy Partners                    | 147,540                   |                           |
| Purchase of treasury stock  | (1,055)                   | (1,214)                   |
| Contribution from joint venture partner   | 1,250                     | 4,750                     |
| Dividends   | (7,926)                   | (7,502)                   |

|   |                  |                  |
|---|------------------|------------------|
| Distributions to noncontrolling interest                      | (11,963)         | (6,916)          |
| Issuance of common stock upon exercise of options             | 61               | 45               |
| Excess tax benefit (expense) from equity based compensation   | (1,045)          | 2,180            |
| Purchase of units for restricted grants Holly Energy Partners | (1,745)          | (616)            |
| Other   | (302)            |                  |
| <b>Net cash provided by financing activities</b>              | <b>89,815</b>    | <b>85,727</b>    |
| <b>Cash and cash equivalents:</b>                             |                  |                  |
| <b>Increase (decrease) for the period</b>                     | <b>(31,307)</b>  | <b>13,073</b>    |
| Beginning of period   | 124,596          | 40,805           |
| <b>End of period</b>  | <b>\$ 93,289</b> | <b>\$ 53,878</b> |
| <b>Supplemental disclosure of cash flow information:</b>      |                  |                  |
| Cash paid during the period for:                              |                  |                  |
| Interest  | \$ 11,879        | \$ 8,774         |
| Income taxes  | \$               | \$ 3,457         |

(1) Includes cash flows attributable to discontinued operations.  
See accompanying notes.

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**HOLLY CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(In thousands)

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          |                  |
|   | <b>2010</b>               | <b>2009</b>      |
| <b>Net income (loss)</b>  | \$ (23,254)               | \$ 23,405        |
| Other comprehensive income (loss):  |                           |                  |
| Securities available-for-sale:  |                           |                  |
| Unrealized gain (loss) on available-for-sale securities                           | 244                       | (463)            |
| Reclassification adjustment to net income on sale of securities                   |                           | 236              |
| <br>  |                           |                  |
| Total unrealized gain (loss) on available-for-sale securities                     | 244                       | (227)            |
| <br>  |                           |                  |
| Other comprehensive loss of Holly Energy Partners:                                |                           |                  |
| Change in fair value of cash flow hedge   | (1,362)                   | (250)            |
| <br>  |                           |                  |
| Other comprehensive loss before income taxes                                      | (1,118)                   | (477)            |
| Income tax provision  | 318                       | (133)            |
| <br>  |                           |                  |
| Other comprehensive loss  | (1,436)                   | (344)            |
| <br>  |                           |                  |
| Total comprehensive income (loss)   | (24,690)                  | 23,061           |
| <br>  |                           |                  |
| Less noncontrolling interest in comprehensive income                              | 2,904                     | 1,324            |
| <br>  |                           |                  |
| <b>Comprehensive income (loss) attributable to Holly Corporation stockholders</b> | <b>\$ (27,594)</b>        | <b>\$ 21,737</b> |

See accompanying notes.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)****NOTE 1: Description of Business and Presentation of Financial Statements**

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

As of March 31, 2010, we:

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

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

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

owned a 34% interest in HEP (which includes our 2% general partnership interest), which owns and operates logistics assets including approximately 2,500 miles of petroleum product and crude oil pipelines located principally in west Texas and New Mexico; ten refined product terminals; a jet fuel terminal; eight refinery loading rack facilities; a refined products tank farm facility; on-site crude oil tankage at our Navajo, Woods Cross and Tulsa Refineries, on-site refined product tankage at our Tulsa Refinery and a 25% interest in a 95-mile, crude oil pipeline joint venture (the SLC Pipeline).

We have prepared these consolidated financial statements without audit. In management's opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of March 31, 2010, the consolidated results of operations and comprehensive income for the three months ended March 31, 2010 and 2009 and consolidated cash flows for the three months ended March 31, 2010 and 2009 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States (GAAP) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC.

Our results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year.

***Accounts Receivable***

Our accounts receivable consist of amounts due from customers that are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer's financial condition and in certain circumstances, collateral, such as a letter of credit or guarantee, is required. Credit losses are charged to income when accounts are deemed uncollectible and historically have been minimal. At March 31, 2010, our allowance for doubtful accounts reserve was \$2.5 million.



**Table of Contents*****Inventories***

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

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

On January 1, 2010, new accounting standards became effective that replace the previous quantitative-based risk and rewards calculation provided under GAAP with a qualitative approach in determining whether an entity is the primary beneficiary of a variable interest entity ( VIE ). Additionally, these standards require an entity to assess on an ongoing basis whether it is the primary beneficiary of a VIE and enhances disclosure requirements with respect to an entity's involvement in a VIE. See Note 3 for additional information on our involvement with HEP, a consolidated VIE.

**NOTE 2: Tulsa Refinery Acquisition**

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

On December 1, 2009, we acquired a 75,000 BPSD refinery that is also in Tulsa, Oklahoma (the Tulsa Refinery east facility ) from an affiliate of Sinclair Oil Company ( Sinclair ) for \$183.3 million, including crude oil, refined product and other inventories valued at \$46.4 million. The total purchase price consisted of \$109.3 million in cash and 2,789,155 shares of our common stock having a value of \$74 million. Additionally, we will reimburse Sinclair approximately \$8 million upon their satisfactory completion of certain environmental projects at the refinery. The refinery produces gasoline, diesel fuel and jet fuel products and also serves markets in the Mid-Continent region of the United States. We are in the process of integrating the operations of both Tulsa Refinery facilities. This will result in the Tulsa Refinery having an integrated crude processing rate of 125,000 BPSD.

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

**Table of Contents****NOTE 3: Holly Energy Partners**

HEP, a VIE, is a publicly held master limited partnership that was formed to acquire, own and operate the petroleum product and crude oil pipeline and terminal, tankage and loading rack facilities that support our refining and marketing operations in west Texas, New Mexico, Utah, Oklahoma, Idaho and Arizona. HEP also owns and operates refined product pipelines and terminals, located primarily in Texas, that service Alon USA, Inc.'s (Alon) refinery in Big Spring, Texas.

As of March 31, 2010, we own a 34% interest in HEP, including the 2% general partner interest. As the general partner of HEP, we have the sole ability to direct the activities of HEP that most significantly impact HEP's economic performance. Additionally, since our obligation to absorb losses and receive benefits from HEP are significant to HEP, we are HEP's primary beneficiary and therefore we consolidate HEP. See Note 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 balances.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at our 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, 2010. We do not provide financial or equity support through any liquidity arrangements and/or guarantees to HEP.

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

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

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

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

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

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

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

***Roadrunner / Beeson Pipelines Transaction***

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



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

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

***Lovington-Artesia Pipeline Transaction***

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

***SLC Pipeline Joint Venture Interest***

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

***Discontinued Operations***

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

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

The following table provides summarized income statement information related to discontinued operations:

|   | <b>Three Months<br/>Ended<br/>March 31, 2009<br/>(In thousands)</b> |
|---|---|
| Sales and other revenues from discontinued operations   | \$ 2,792  |
| Income from discontinued operations before income taxes | \$ 1,594  |
| Income tax expense                                      | (263)   |
| Income from discontinued operations, net of taxes       | \$ 1,331  |

Cash flows from discontinued operations have been combined with cash flows from continuing operations for presentation purposes in the Consolidated Statements of Cash Flows. For the three months ended March 31, 2009, net cash flows provided by discontinued Rio Grande operations were \$2 million.

***Transportation Agreements***

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

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

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

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

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

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

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

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

Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP. These minimum annual payments are adjusted each year at a percentage change based upon the change in the Producer Price Index ( PPI ) but will not decrease as a result of a decrease in the PPI. Under these agreements, the agreed upon tariff rates are adjusted each year on July 1 at a rate based upon the percentage change in PPI or Federal Energy Regulatory Commission ( FERC ) index, but with the exception of the HEP IPA, generally will not decrease as a result of a decrease in the PPI or FERC index. The FERC index is the change in the PPI plus a FERC adjustment factor that is reviewed periodically. As of March 31, 2010, these agreements will result in minimum annualized payments to HEP of \$132.4 million.

***HEP Equity Offerings***

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

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

**NOTE 4: Financial Instruments**

Our financial instruments consist of cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable, interest rate swaps and debt. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments.

Debt consists of outstanding principal under HEP's revolving credit agreement, our 9.875% senior notes due 2017 (the Holly 9.875% Senior Notes ), HEP's 6.25% senior notes due 2015 (the HEP 6.25% Senior Notes ) and HEP's 8.25% senior notes due 2018 (the HEP 8.25% Senior Notes ). The \$171 million carrying amount of outstanding debt under HEP's credit agreement approximates fair value as interest rates are reset frequently using current interest rates. At March 31, 2010, the estimated fair value of the Holly 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes were \$310.5 million, \$175.8 million and \$151.5 million, respectively. These fair value estimates are based on market quotes provided from a third-party bank. See Note 10 for additional information on these debt instruments.

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

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

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

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

Our investments in marketable securities are measured at fair value using quoted market prices, a Level 1 input. See Note 7 for additional information on our investments in marketable securities, including fair value measurements.

HEP has an interest rate swap that is measured at fair value on a recurring basis using Level 2 inputs. With respect to this instrument, fair value is based on the net present value of expected future cash flows related to both variable and fixed rate legs of its interest rate swap agreement. The measurements are computed using the forward London Interbank Offered Rate ( LIBOR ) yield curve, a market-based observable input. See Note 10 for additional information on this interest rate swap, including fair value measurements.

**NOTE 5: Earnings Per Share**

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

|  | <b>Three Months Ended</b>             |             |
|--|---------------------------------------|-------------|
|  | <b>March 31,</b>                      |             |
|  | <b>2010</b>                           | <b>2009</b> |
|  | (In thousands, except per share data) |             |
| Income (loss) from continuing operations   | \$ (28,094)                           | \$ 21,553   |
| Average number of shares of common stock outstanding                                     | 53,094                                | 50,042      |
| Effect of dilutive stock options, variable restricted shares and performance share units | 138                                   | 129         |
| Average number of shares of common stock outstanding assuming dilution                   | 53,232                                | 50,171      |
| Basic earnings per share from continuing operations                                      | \$ (0.53)                             | \$ 0.43     |
| Diluted earnings per share from continuing operations                                    | \$ (0.53)                             | \$ 0.43     |

**NOTE 6: Stock-Based Compensation****Holly Corporation**

On March 31, 2010, we had three principal share-based compensation plans which are described below (collectively, the Long-Term Incentive Compensation Plan ). The compensation cost that has been charged against income for these plans was \$1.9 million, and \$1.3 million for the three months ended March 31, 2010 and 2009, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$0.8 million and \$0.5 million for the three months ended March 31, 2010 and 2009, respectively. Our current accounting policy for



the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs pro-rata over the vesting periods. At March 31, 2010, 1,595,122 shares of common stock were reserved for future grants under the current Long-Term Incentive Compensation Plan, which reservation allows for awards of options, restricted stock or other performance awards.

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Additionally, HEP maintains share-based compensation plans for HEP directors and select Holly Logistic Services, L.L.C. executives and employees. Compensation cost attributable to HEP's share-based compensation plans for the three months ended March 31, 2010 and 2009 was \$1 million and \$0.4 million, respectively.

**Stock Options**

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

A summary of option activity and changes during the three months ended March 31, 2010 is presented below:

| <b>Options</b>                                 | <b>Shares</b> | <b>Weighted-Average Exercise Price</b> | <b>Weighted-Average Remaining Contractual Term</b> | <b>Aggregate Intrinsic Value (\$000)</b> |
|--|---------------|--|--|--|
| Outstanding and exercisable at January 1, 2010 | 40,200        | \$ 2.98                                |  |  |
| Exercised                                      | (20,700)      | 2.98                                   |  |  |
| Outstanding and exercisable at March 31, 2010  | 19,500        | \$ 2.98                                | 9 months   | \$ 486                                   |

The total intrinsic value of options exercised during the three months ended March 31, 2010 and 2009, was \$0.5 million and \$0.3 million, respectively.

Cash received from option exercises under the stock option plans was \$61,000 and \$45,000 for the three months ended March 31, 2010 and 2009, respectively. The actual tax benefit realized for the tax deductions from option exercises under the stock option plans totaled \$199,000 and \$122,000 for the three months ended March 31, 2010 and 2009, respectively.

**Restricted Stock**

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

A summary of restricted stock activity and changes during the three months ended March 31, 2010 is presented below:

| <b>Restricted Stock</b>                         | <b>Grants</b> | <b>Weighted-Average Grant Date Fair Value</b> | <b>Aggregate Intrinsic Value (\$000)</b> |
|---|---------------|---|--|
| Outstanding at January 1, 2010 (non-vested)     | 284,450       | \$ 31.82                                      |  |
| Vesting and transfer of ownership to recipients | (91,000)      | 17.85   |  |
| Granted   | 165,108       | 48.65   |  |

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|  |         |    |       |    |        |
|--|---------|----|-------|----|--------|
| Outstanding at March 31, 2010 (non-vested) | 358,558 | \$ | 33.95 | \$ | 10,007 |
|--|---------|----|-------|----|--------|

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The total fair value of restricted stock vested and transferred to recipients during the three months ended March 31, 2010 and 2009 was \$1.6 million and \$3.4 million, respectively. As of March 31, 2010, there was \$5 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 1.2 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 one to three years. Under the terms of our performance share unit grants, awards are subject to financial performance criteria.

During the three months ended March 31, 2010, we granted 110,489 performance share units with a fair value based on our grant date closing stock price of \$29.17. These units are payable in stock and are subject to certain financial performance criteria.

The fair value of each performance share unit award is computed using the grant date closing stock price of each respective award grant and will apply to the number of units ultimately awarded. The number of shares ultimately issued for each award will be based on our financial performance as compared to peer group companies over the performance period and can range from zero to 200%. As of March 31, 2010, estimated share payouts for outstanding non-vested performance share unit awards ranged from 125% to 130%.

A summary of performance share unit activity and changes during the three months ended March 31, 2010 is presented below:

| <b>Performance Share Units</b>                  | <b>Grants</b> |
|---|---------------|
| Outstanding at January 1, 2010 (non-vested)     | 215,170       |
| Vesting and transfer of ownership to recipients | (38,653)      |
| Granted   | 110,489       |
| Outstanding at March 31, 2010 (non-vested)      | 287,006       |

For the three months ended March 31, 2010, we issued 66,483 shares of our common stock having a fair value of \$2.2 million related to vested performance share units, representing a 172% payout. Based on the weighted average grant date fair value of \$3.2 million, there was \$6.4 million of total unrecognized compensation cost related to non-vested performance share units. That cost is expected to be recognized over a weighted-average period of 1.9 years.

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

Our investment portfolio consists of cash and cash equivalents at March 31, 2010. In addition, we own 1,000,000 shares of Connacher Oil and Gas Limited common stock that were received as partial consideration upon our sale of our Montana refinery in 2006.

At times we also invest available cash in highly-rated marketable debt securities, primarily issued by government entities that have maturities at the date of purchase of greater than three months.

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



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

|                          | <b>Available-for-Sale Securities</b> |   |   |
|--------------------------|--------------------------------------|---|---|
|                          | <b>Amortized<br/>Cost</b>            | <b>Gross<br/>Unrealized<br/>Gain<br/>(In thousands)</b> | <b>Estimated<br/>Fair Value<br/>(Net Carrying<br/>Amount)</b> |
| <b>March 31, 2010</b>    |                                      |   |   |
| Equity securities        | \$ 604                               | \$ 863  | \$ 1,467  |
| <b>December 31, 2009</b> |                                      |   |   |
| Equity securities        | \$ 604                               | \$ 619  | \$ 1,223  |

For the three months ended March 31, 2009, we received \$183.1 million related to sales and maturities of marketable debt securities.

**NOTE 8: Inventories**

Inventory consists of the following components:

|  | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|---------------------------|------------------------------|
|  | (In thousands)            |                              |
| Crude oil  | \$ 120,246                | \$ 60,874                    |
| Other raw materials and unfinished products <sup>(1)</sup> | 53,690                    | 42,783                       |
| Finished products <sup>(2)</sup>                           | 202,177                   | 155,925                      |
| Process chemicals <sup>(3)</sup>                           | 22,660                    | 22,823                       |
| Repairs and maintenance supplies and other                 | 22,249                    | 21,108                       |
| Total inventory  | \$ 421,022                | \$ 303,513                   |

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

(2) Finished products include gasolines, jet fuels, diesels, lubricants,

asphalts, LPG s  
and residual  
fuels.

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

**NOTE 9: Environmental**

Consistent with our accounting policy for environmental remediation costs, we expensed \$1.4 million and \$2.6 million for the three months ended March 31, 2010 and 2009, respectively, for environmental remediation obligations. The accrued environmental liability reflected in the consolidated balance sheets was \$31.3 million and \$30.4 million at March 31, 2010 and December 31, 2009, respectively, of which \$24.6 million and \$24.2 million, respectively, were classified as other long-term liabilities. These liabilities include \$22.3 million of environmental obligations that we assumed in connection with our Tulsa Refinery west facility acquired on June 1, 2009 and our Tulsa Refinery east facility acquired on December 1, 2009. Costs of future expenditures for environmental remediation that are expected to be incurred over the next several years are not discounted to their present value.

**Table of Contents****NOTE 10: Debt*****Credit Facilities***

We have a \$370 million senior secured credit agreement expiring in March 2013 (the Holly Credit Agreement) with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. The credit agreement may be used to fund working capital requirements, capital expenditures, permitted acquisitions or other general corporate purposes. We were in compliance with all covenants at March 31, 2010. At March 31, 2010, we had no outstanding borrowings and letters of credit totaling \$114.5 million under the Holly Credit Agreement. At that level of usage, the unused commitment was \$255.5 million at March 31, 2010. We entered into an amendment to the Holly Credit Agreement on May 6, 2010 that changed certain financial covenants and provided other enhancements to the agreement.

HEP has a \$300 million senior secured revolving credit agreement expiring in August 2011 (the HEP Credit Agreement). The HEP Credit Agreement is available to fund capital expenditures, acquisitions and working capital and for other general partnership purposes. At March 31, 2010, HEP had outstanding borrowings totaling \$171 million under the HEP Credit Agreement, with unused borrowing capacity of \$129 million. HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets. HEP assets that are included in our Consolidated Balance Sheet at March 31, 2010 consist of \$16.6 million in cash and cash equivalents, \$21 million in accounts receivable and other current assets, \$491.7 million in properties, plants and equipment, net and \$156.7 million in intangible and other assets. Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. During the first quarter of 2010, our previous agreements to indemnify HEP's controlling partner to the extent it makes any payment in satisfaction of debt service due on up to a \$171 million aggregate principal amount of borrowings under the HEP Credit Agreement were terminated.

***Holly Senior Notes Due 2017***

In June 2009, we issued \$200 million in aggregate principal amount of the Holly 9.875% Senior Notes. A portion of the \$188 million in net proceeds received was used for post-closing payments for inventories of crude oil and refined products acquired from Sunoco following the closing of the Tulsa Refinery west facility purchase on June 1, 2009. In October 2009, we issued an additional \$100 million aggregate principal amount as an add-on offering to the Holly 9.875% Senior Notes that was used to fund the cash portion of our acquisition of Sinclair's 75,000 BPSD refinery located in Tulsa, Oklahoma.

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

***HEP Senior Notes Due 2018 and 2015***

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

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



foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

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

**Holly Financing Obligation**

On October 20, 2009, we sold to Plains a portion of the crude oil petroleum storage, and certain refining-related crude oil receiving pipeline facilities located at our Tulsa Refinery east facility. In connection with this transaction, we entered into a 15-year lease agreement with Plains, whereby we agreed to pay a fixed monthly fee for the exclusive use of this tankage as well as a fee for volumes received at the receiving facilities purchased by Plains. Additionally, we have a margin sharing agreement with Plains under which we will equally share contango profits with Plains for crude oil purchased by them and delivered to our Tulsa Refinery west facility for storage. Due to our continuing involvement in these assets, this transaction has been accounted for as a financing obligation. As a result, we retained these assets on our books and recorded a liability representing the \$40 million in proceeds received.

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

|  | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|---------------------------|------------------------------|
|  | (In thousands)            |                              |
| Holly 9.875% Senior Notes                            |                           |                              |
| Principal  | \$ 300,000                | \$ 300,000                   |
| Unamortized discount                                 | (11,295)                  | (11,549)                     |
|  | 288,705                   | 288,451                      |
| Holly Financing Obligation                           |                           |                              |
| Principal  | 39,563                    | 39,809                       |
| Total Holly long-term debt                           | \$ 328,268                | \$ 328,260                   |
| HEP Credit Agreement                                 | \$ 171,000                | \$ 206,000                   |
| HEP 6.25% Senior Notes                               |                           |                              |
| Principal  | 185,000                   | 185,000                      |
| Unamortized discount                                 | (12,934)                  | (13,593)                     |
| Unamortized premium    dedesignated fair value hedge | 1,704                     | 1,791                        |
|  | 173,770                   | 173,198                      |
| HEP 8.25% Senior Notes                               |                           |                              |
| Principal  | 150,000                   |                              |
| Unamortized discount                                 | (2,443)                   |                              |
|  | 147,557                   |                              |
| Total HEP long-term debt                             | \$ 492,327                | \$ 379,198                   |

***Interest Rate Risk Management***

HEP uses interest rate swaps (derivative instruments) to manage its exposure to interest rate risk.

As of March 31, 2010, HEP has an interest rate swap that hedges its exposure to the cash flow risk caused by the effects of LIBOR changes on a \$171 million HEP Credit Agreement advance. This interest rate swap effectively converts its \$171 million LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 1.75%, which equaled an effective interest rate of 5.49% as of March 31, 2010. The maturity date of this swap contract is February 28, 2013.

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HEP designated this interest rate swap as a cash flow hedge. Based on its assessment of effectiveness using the change in variable cash flows method, HEP determined that this interest rate swap is effective in offsetting the variability in interest payments on the \$171 million variable rate debt resulting from changes in LIBOR. Under hedge accounting, HEP adjusts the cash flow hedge on a quarterly basis to its fair value with the offsetting fair value adjustment to accumulated other comprehensive income. Also on a quarterly basis, HEP measures hedge effectiveness by comparing the present value of the cumulative change in the expected future interest to be paid or received on the variable leg of the swap against the expected future interest payments on the \$171 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of March 31, 2010, HEP had no ineffectiveness on its cash flow hedge.

Additional information on HEP's interest rate swap at March 31, 2010 is as follows:

| Interest Rate Swap | Balance Sheet |                 | Fair Value | Location of Offsetting | Offsetting |
|--------------------|---------------|-----------------|------------|------------------------|------------|
|                    | Location      |                 |            | Balance                | Amount     |
|                    |               |                 |            | (In thousands)         |            |
| <b>Liability</b>   |               |                 |            |                        |            |
| Cash flow hedge    | \$171 million | Other long-term |            | Accumulated other      |            |
| LIBOR based debt   |               | liabilities     | \$ 10,502  | comprehensive loss     | \$ 10,502  |

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

For the three months ended March 31, 2010 and 2009, HEP recognized \$1.5 million and \$0.2 million, respectively, in interest expense attributable to fair value adjustments to these interest rate swaps.

HEP has a deferred hedge premium that relates to the application of hedge accounting to the Variable Rate Swap prior to its hedge dedesignation in 2008. This deferred hedge premium having a balance of \$1.7 million at March 31, 2010, is being amortized as a reduction to interest expense over the remaining term of the HEP 6.25% Senior Notes.

**NOTE 11: Equity**

Changes to equity during the three months ended March 31, 2010 are presented below:

|   | Holly Corporation Stockholders Equity | Noncontrolling Interest (In thousands) | Total Equity |
|---|---------------------------------------|--|--------------|
| <b>Balance at December 31, 2009</b>                     | \$ 619,039                            | \$ 588,742                             | \$ 1,207,781 |
| Net income (loss)                                       | (28,094)                              | 4,840                                  | (23,254)     |
| Dividends   | (7,990)                               |  | (7,990)      |
| Distributions to noncontrolling interest holders        |                                       | (11,963)                               | (11,963)     |
| Other comprehensive income (loss)                       | 500                                   | (1,936)                                | (1,436)      |
| Contribution from joint venture partner                 |                                       | 1,250                                  | 1,250        |
| Issuance of common stock upon exercise of stock options | 61                                    |  | 61           |
| Tax benefit from stock options                          | 199                                   |  | 199          |
| Equity based compensation                               | 1,941                                 | 966                                    | 2,907        |

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|   |                   |                   |                     |
|---|-------------------|-------------------|---------------------|
| Tax expense from equity based compensation arrangements | (1,244)           |                   | (1,244)             |
| Purchase of HEP units for restricted grants             |                   | (1,745)           | (1,745)             |
| Purchase of treasury stock <sup>(1)</sup>               | (1,055)           |                   | (1,055)             |
| <b>Balance at March 31, 2010</b>                        | <b>\$ 583,357</b> | <b>\$ 580,154</b> | <b>\$ 1,163,511</b> |

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

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During the three months ended March 31, 2010, we repurchased at market price from certain executives and employees 44,406 shares of our common stock at a cost of \$1.1 million. These purchases were made under the terms of restricted stock and performance share unit agreements to provide funds for the payment of payroll and income taxes due at the vesting of restricted shares in the case of officers and employees who did not elect to satisfy such taxes by other means.

**NOTE 12: Other Comprehensive Income (Loss)**

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

|   | <b>Before-Tax</b> | <b>Tax<br/>Expense<br/>(Benefit)</b> | <b>After-Tax</b> |
|---|-------------------|--------------------------------------|------------------|
|   |                   | (In thousands)                       |                  |
| <b>Three Months Ended March 31, 2010</b>                              |                   |                                      |                  |
| Unrealized gain on available-for-sale securities                      | \$ 244            | \$ 94                                | \$ 150           |
| Unrealized loss on HEP cash flow hedge                                | (1,362)           | 224                                  | (1,586)          |
| Other comprehensive loss  | (1,118)           | 318                                  | (1,436)          |
| Less other comprehensive loss attributable to noncontrolling interest | (1,936)           |                                      | (1,936)          |
| Other comprehensive income attributable to Holly stockholders         | \$ 818            | \$ 318                               | \$ 500           |
| <b>Three Months Ended March 31, 2009</b>                              |                   |                                      |                  |
| Unrealized loss on available-for-sale securities                      | \$ (227)          | \$ (89)                              | \$ (138)         |
| Unrealized loss on HEP cash flow hedge                                | (250)             | (44)                                 | (206)            |
| Other comprehensive loss  | (477)             | (133)                                | (344)            |
| Less other comprehensive loss attributable to noncontrolling interest | (136)             |                                      | (136)            |
| Other comprehensive loss attributable to Holly stockholders           | \$ (341)          | \$ (133)                             | \$ (208)         |

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

|  | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|---------------------------|------------------------------|
|  | (In thousands)            |                              |
| Pension obligation adjustment                                    | \$ (21,774)               | \$ (21,774)                  |
| Retiree medical obligation adjustment                            | (1,749)                   | (1,749)                      |
| Unrealized gain on available-for-sale securities                 | 529                       | 379                          |
| Unrealized loss on HEP cash flow hedge, net of minority interest | (2,206)                   | (2,556)                      |
| Accumulated other comprehensive loss                             | \$ (25,200)               | \$ (25,700)                  |

**NOTE 13: Retirement Plan**

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

The retirement plan is frozen to employees hired subsequent to 2006 and not covered by collective bargaining agreements with labor unions. To the extent an employee was hired prior to January 1, 2007, and elected to participate in automatic contributions features under our defined contribution plan, their participation in future benefits of the retirement plan was frozen.

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The net periodic pension expense consisted of the following components:

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2010</b>               | <b>2009</b> |
|  | (In thousands)            |             |
| Service cost – benefit earned during the quarter | \$ 1,141                  | \$ 1,088    |
| Interest cost on projected benefit obligations   | 1,286                     | 1,231       |
| Expected return on plan assets                   | (1,124)                   | (1,002)     |
| Amortization of prior service cost               | 98                        | 98          |
| Amortization of net loss                         | 624                       | 19          |
| Net periodic pension expense                     | \$ 2,025                  | \$ 1,434    |

The expected long-term annual rate of return on plan assets is 8.5%. This rate was used in measuring 2010 and 2009 net periodic benefit cost. We expect to contribute between zero and \$10 million to the retirement plan in 2010.

**NOTE 14: Contingencies**

In May 2007, the United States Court of Appeals for the District of Columbia Circuit ( Court of Appeals ) issued its decision on petitions for review, brought by us and other parties, concerning rulings by the FERC in proceedings brought by us and other parties against SFPP, L.P. ( SFPP ). These proceedings relate to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. We are one of several refiners that regularly utilize the SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona on SFPP's East Line. The Court of Appeals in its May 2007 decision approved a FERC position, which is adverse to us, on the treatment of income taxes in the calculation of allowable rates for pipelines operated by partnerships and ruled in our favor on an issue relating to our rights to reparations when it is determined that certain tariffs we paid to SFPP in the past were too high. The income tax issue and the other remaining issues relating to SFPP's obligations to shippers are being handled by the FERC in a single compliance proceeding covering the period from 1992 through May 2006. We currently estimate that, as a result of the May 2007 Court of Appeals decision and prior rulings by the Court of Appeals and the FERC in these proceedings, a net amount will be due from SFPP to us for the period January 1992 through May 2006 in addition to the \$15.3 million we received in 2003 from SFPP as reparations for the period from 1992 through July 2000. On April 16, 2010, a settlement among us, SFPP, and other shippers was filed with FERC for its approval. If approved the settlement would finally resolve the amount of additional payments SFPP owes us for the period January 2002 through May 2006. The proposed settlement remains subject to final appeal by FERC.

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

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



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

**Table of Contents****NOTE 15: Segment Information**

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

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

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

The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2009.

|  | <b>Refining</b> | <b>HEP <sup>(1)</sup></b> | <b>Corporate<br/>and Other</b> | <b>Consolidations<br/>and<br/>Eliminations</b> | <b>Consolidated<br/>Total</b> |
|--|-----------------|---------------------------|--------------------------------|--|-------------------------------|
|  | (In thousands)  |                           |                                |  |                               |
| <b>Three Months Ended March 31, 2010</b> |                 |                           |                                |  |                               |
| Sales and other revenues                 | \$ 1,867,174    | \$ 40,689                 | \$ 66                          | \$ (33,639)                                    | \$ 1,874,290                  |
| Depreciation and amortization            | \$ 20,726       | \$ 6,805                  | \$ 521                         | \$ (295)                                       | \$ 27,757                     |
| Income (loss) from operations            | \$ (24,579)     | \$ 18,261                 | \$ (15,767)                    | \$ (659)                                       | \$ (22,744)                   |
| Capital expenditures                     | \$ 28,272       | \$ 1,911                  | \$ 915                         | \$   | \$ 31,098                     |
| <b>Three Months Ended March 31, 2009</b> |                 |                           |                                |  |                               |
| Sales and other revenues                 | \$ 636,910      | \$ 29,332                 | \$ 99                          | \$ (18,311)                                    | \$ 648,030                    |
| Depreciation and amortization            | \$ 11,951       | \$ 5,578                  | \$ 2,552                       | \$   | \$ 20,081                     |
| Income (loss) from operations            | \$ 38,705       | \$ 12,078                 | \$ (12,992)                    | \$   | \$ 37,791                     |
| Capital expenditures                     | \$ 88,238       | \$ 10,570                 | \$ 420                         | \$   | \$ 99,228                     |

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|   | Refining     | HEP <sup>(1)</sup> | Corporate<br>and Other<br>(In thousands) | Consolidations<br>and<br>Eliminations | Consolidated<br>Total |
|---|--------------|--------------------|--|---------------------------------------|-----------------------|
| <b>March 31, 2010</b>   |              |                    |  |                                       |                       |
| Cash, cash equivalents and investments in marketable securities | \$           | \$ 16,609          | \$ 78,147                                | \$                                    | \$ 94,756             |
| Total assets  | \$ 2,392,006 | \$ 686,022         | \$ 335,538                               | \$ (31,239)                           | \$ 3,382,327          |
| <b>December 31, 2009</b>  |              |                    |  |                                       |                       |
| Cash, cash equivalents and investments in marketable securities | \$           | \$ 2,508           | \$ 123,311                               | \$                                    | \$ 125,819            |
| Total assets  | \$ 2,142,317 | \$ 641,775         | \$ 392,007                               | \$ (30,160)                           | \$ 3,145,939          |

(1) HEP segment revenues from external customers were \$7.1 million and \$11 million for the three months ended March 31, 2010 and 2009, respectively.

**Note 16: Supplemental Guarantor/Non-Guarantor Financial Information**

Our obligations under the Holly 9.875% Senior Notes have been jointly and severally guaranteed by the substantial majority of our existing and future restricted subsidiaries ( Guarantor Restricted Subsidiaries ). These guarantees are full and unconditional. HEP in which we have a 34% ownership interest and its subsidiaries (collectively, Non-Guarantor Non-Restricted Subsidiaries ), and certain of our other subsidiaries ( Non-Guarantor Restricted Subsidiaries ) have not guaranteed these obligations.

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

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

Table of Contents**Condensed Consolidating Balance Sheet**

| <b>March 31, 2010</b>                      | <b>Parent</b> | <b>Guarantor Restricted Subsidiaries</b> | <b>Non-Guarantor Restricted Subsidiaries</b> | <b>Eliminations</b> | <b>Holly Corp. Non-Guarantor Before Non-Restricted Consolidation of HEP Subsidiaries (HEP Segment)</b> |                     |                     | <b>Consolidated</b> |
|--|---------------|--|--|---------------------|--|---------------------|---------------------|---------------------|
|  |               |  |  |                     | <b>Eliminations</b>  | <b>Eliminations</b> | <b>Eliminations</b> |                     |
| (In thousands)                             |               |  |  |                     |  |                     |                     |                     |
| <b>ASSETS</b>                              |               |  |  |                     |  |                     |                     |                     |
| Current assets:                            |               |  |  |                     |  |                     |                     |                     |
| Cash and cash equivalents                  | \$ 73,146     | \$ (2,068)                               | \$ 5,602                                     | \$                  | \$ 76,680  | \$ 16,609           | \$                  | \$ 93,289           |
| Marketable securities                      |               | 1,467                                    |  |                     | 1,467  |                     |                     | 1,467               |
| Accounts receivable                        | 1,048         | 880,460                                  | (1)  |                     | 881,507  | 20,456              | (18,423)            | 883,540             |
| Intercompany accounts receivable (payable) | (1,107,093)   | 726,705                                  | 380,388                                      |                     |  |                     |                     |                     |
| Inventories                                |               | 420,857                                  |  |                     | 420,857  | 165                 |                     | 421,022             |
| Income taxes receivable                    | 30,248        |  |  |                     | 30,248   |                     |                     | 30,248              |
| Prepayments and other assets               | 23,012        | 60,967                                   |  |                     | 83,979   | 349                 | (2,951)             | 81,377              |
| Total current assets                       | (979,639)     | 2,088,388                                | 385,989                                      |                     | 1,494,738  | 37,579              | (21,374)            | 1,510,943           |
| Properties and equipment, net              | 21,839        | 971,336                                  | 165,126                                      |                     | 1,158,301  | 491,701             | (11,009)            | 1,638,993           |
| Investment in subsidiaries                 | 1,992,379     | 504,018                                  | (391,551)                                    | (2,104,846)         |  |                     |                     |                     |
| Intangibles and other assets               | 8,259         | 66,246                                   |  |                     | 74,505   | 156,742             | 1,144               | 232,391             |
| Total assets                               | \$ 1,042,838  | \$ 3,629,988                             | \$ 159,564                                   | \$ (2,104,846)      | \$ 2,727,544   | \$ 686,022          | \$ (31,239)         | \$ 3,382,327        |
| <b>LIABILITIES AND EQUITY</b>              |               |  |  |                     |  |                     |                     |                     |
| Current liabilities:                       |               |  |  |                     |  |                     |                     |                     |
| Accounts payable                           | \$ 7,720      | \$ 1,155,223                             | \$ 4,780                                     | \$                  | \$ 1,167,723   | \$ 6,216            | \$ (18,422)         | \$ 1,155,517        |
| Accrued liabilities                        | 25,057        | 21,722                                   | 498  |                     | 47,277   | 13,222              | (2,952)             | 57,547              |

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|                                       |              |              |            |                |              |            |             |              |
|---------------------------------------|--------------|--------------|------------|----------------|--------------|------------|-------------|--------------|
| Total current liabilities             | 32,777       | 1,176,945    | 5,278      |                | 1,215,000    | 19,438     | (21,374)    | 1,213,064    |
| Long-term debt                        | 288,705      | 56,806       |            |                | 345,511      | 492,327    | (17,243)    | 820,595      |
| Non-current liabilities               | 39,824       | 31,097       |            |                | 70,921       | 11,366     |             | 82,287       |
| Deferred income taxes                 | 97,094       | 323          | 502        |                | 97,919       |            | 4,951       | 102,870      |
| Distributions in excess of inv in HEP |              | 372,438      |            |                | 372,438      |            | (372,438)   |              |
| Equity Holly Corporation              | 584,438      | 1,992,379    | 153,784    | (2,146,163)    | 584,438      | 162,891    | (163,972)   | 583,357      |
| Equity noncontrolling interest        |              |              |            | 41,317         | 41,317       |            | 538,837     | 580,154      |
| Total liabilities and equity          | \$ 1,042,838 | \$ 3,629,988 | \$ 159,564 | \$ (2,104,846) | \$ 2,727,544 | \$ 686,022 | \$ (31,239) | \$ 3,382,327 |

**Condensed Consolidating Balance Sheet**

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

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|                               |              |              |            |                |              |            |             |              |
|-------------------------------|--------------|--------------|------------|----------------|--------------|------------|-------------|--------------|
| Properties and equipment, net |              |              |            |                |              |            |             |              |
| Investment in subsidiaries    | 2,010,510    | 435,970      | (314,973)  | (2,131,507)    |              |            |             |              |
| Intangibles and other assets  | 8,752        | 64,017       |            |                | 72,769       | 159,045    | 1,144       | 232,958      |
| Total assets                  | \$ 1,098,428 | \$ 3,403,309 | \$ 164,094 | \$ (2,131,507) | \$ 2,534,324 | \$ 641,775 | \$ (30,160) | \$ 3,145,939 |

**LIABILITIES AND EQUITY**

Current liabilities:

|                     |          |            |          |    |            |          |             |            |
|---------------------|----------|------------|----------|----|------------|----------|-------------|------------|
| Accounts payable    | \$ 8,968 | \$ 974,177 | \$ 2,224 | \$ | \$ 985,369 | \$ 6,211 | \$ (16,425) | \$ 975,155 |
| Accrued liabilities | 23,752   | 15,477     | 709      |    | 39,938     | 13,594   | (3,575)     | 49,957     |

|                           |        |         |       |  |           |        |          |           |
|---------------------------|--------|---------|-------|--|-----------|--------|----------|-----------|
| Total current liabilities | 32,720 | 989,654 | 2,933 |  | 1,025,307 | 19,805 | (20,000) | 1,025,112 |
|---------------------------|--------|---------|-------|--|-----------|--------|----------|-----------|

|                |         |        |  |  |         |         |  |         |
|----------------|---------|--------|--|--|---------|---------|--|---------|
| Long-term debt | 288,451 | 39,809 |  |  | 328,260 | 379,198 |  | 707,458 |
|----------------|---------|--------|--|--|---------|---------|--|---------|

|                         |        |        |  |  |        |        |          |        |
|-------------------------|--------|--------|--|--|--------|--------|----------|--------|
| Non-current liabilities | 37,859 | 48,137 |  |  | 85,996 | 12,349 | (17,342) | 81,003 |
|-------------------------|--------|--------|--|--|--------|--------|----------|--------|

|                       |         |     |     |  |         |  |       |         |
|-----------------------|---------|-----|-----|--|---------|--|-------|---------|
| Deferred income taxes | 119,127 | 229 | 278 |  | 119,634 |  | 4,951 | 124,585 |
|-----------------------|---------|-----|-----|--|---------|--|-------|---------|

|                                       |  |         |  |  |         |  |           |  |
|---------------------------------------|--|---------|--|--|---------|--|-----------|--|
| Distributions in excess of inv in HEP |  | 314,970 |  |  | 314,970 |  | (314,970) |  |
|---------------------------------------|--|---------|--|--|---------|--|-----------|--|

|                          |         |           |         |             |         |         |           |         |
|--------------------------|---------|-----------|---------|-------------|---------|---------|-----------|---------|
| Equity Holly Corporation | 620,271 | 2,010,510 | 160,883 | (2,171,393) | 620,271 | 230,423 | (231,655) | 619,039 |
|--------------------------|---------|-----------|---------|-------------|---------|---------|-----------|---------|

|                                |  |  |  |        |        |  |         |         |
|--------------------------------|--|--|--|--------|--------|--|---------|---------|
| Equity noncontrolling interest |  |  |  | 39,886 | 39,886 |  | 548,856 | 588,742 |
|--------------------------------|--|--|--|--------|--------|--|---------|---------|

|                              |              |              |            |                |              |            |             |              |
|------------------------------|--------------|--------------|------------|----------------|--------------|------------|-------------|--------------|
| Total liabilities and equity | \$ 1,098,428 | \$ 3,403,309 | \$ 164,094 | \$ (2,131,507) | \$ 2,534,324 | \$ 641,775 | \$ (30,160) | \$ 3,145,939 |
|------------------------------|--------------|--------------|------------|----------------|--------------|------------|-------------|--------------|

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

| <b>Three Months Ended</b>                                    | <b>Non-Guarantor Restricted Restricted</b> |                     |                     | <b>Holly Corp. Non-Guarantor Before Non-Restricted Consolidation Subsidiaries (HEP) Segment Eliminations Consolidated</b> |               |                |                     |                     |
|--|--|---------------------|---------------------|---|---------------|----------------|---------------------|---------------------|
| <b>March 31, 2010</b>  | <b>Parent</b>                              | <b>Subsidiaries</b> | <b>Subsidiaries</b> | <b>Eliminations</b>   | <b>of HEP</b> | <b>Segment</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|  |  |                     |                     |   |               |                |                     |                     |
|  |  |                     |                     |   |               |                |                     |                     |
|  |  |                     |                     |   |               |                |                     |                     |
|  |  |                     |                     |   |               |                |                     |                     |
| Sales and other revenues                                     | \$ 67                                      | \$ 1,867,173        | \$                  | \$  | \$ 1,867,240  | \$ 40,689      | \$ (33,639)         | \$ 1,874,290        |
| Operating costs and expenses:                                |  |                     |                     |   |               |                |                     |                     |
| Cost of products sold  |  | 1,756,507           | (74)                |   | 1,756,433     |                | (32,569)            | 1,723,864           |
| Operating expenses   |  | 114,600             |                     |   | 114,600       | 13,060         | (116)               | 127,544             |
| General and administrative expenses                          | 14,885                                     | 421                 |                     |   | 15,306        | 2,563          |                     | 17,869              |
| Depreciation and amortization                                | 943  | 20,954              | (650)               |   | 21,247        | 6,805          | (295)               | 27,757              |
| Total operating costs and expenses                           | 15,828                                     | 1,892,482           | (724)               |   | 1,907,586     | 22,428         | (32,980)            | 1,897,034           |
| Income (loss) from operations                                | (15,761)                                   | (25,309)            | 724                 |   | (40,346)      | 18,261         | (659)               | (22,744)            |
| Other income (expense):                                      |  |                     |                     |   |               |                |                     |                     |
| Equity in earnings (loss) of subsidiaries                    | (20,108)                                   | 6,480               | 5,929               | 13,628  | 5,929         |                | (5,929)             |                     |
| Interest income (expense)                                    | (9,143)                                    | (1,279)             | 8                   |   | (10,414)      | (8,104)        | 855                 | (17,663)            |
| Other income (expense)                                       |  |                     |                     |   |               | 481            |                     | 481                 |
|  | (29,251)                                   | 5,201               | 5,937               | 13,628  | (4,485)       | (7,623)        | (5,074)             | (17,182)            |
| Income (loss) from continuing operations before income taxes | (45,012)                                   | (20,108)            | 6,661               | 13,628  | (44,831)      | 10,638         | (5,733)             | (39,926)            |
| Income tax provision   | (16,766)                                   |                     |                     |   | (16,766)      | 94             |                     | (16,672)            |
| Net Income (loss)  | (28,246)                                   | (20,108)            | 6,661               | 13,628  | (28,065)      | 10,544         | (5,733)             | (23,254)            |

|   |  |  |     |  |     |  |       |  |       |
|---|--|--|-----|--|-----|--|-------|--|-------|
| Less net income attributable to noncontrolling interest |  |  | 181 |  | 181 |  | 4,659 |  | 4,840 |
|---|--|--|-----|--|-----|--|-------|--|-------|

|  |             |             |          |           |             |           |             |             |
|--|-------------|-------------|----------|-----------|-------------|-----------|-------------|-------------|
| Net income (loss) attributable to Holly Corporation stockholders | \$ (28,246) | \$ (20,108) | \$ 6,661 | \$ 13,447 | \$ (28,246) | \$ 10,544 | \$ (10,392) | \$ (28,094) |
|--|-------------|-------------|----------|-----------|-------------|-----------|-------------|-------------|

### Condensed Consolidating Statement of Income

| Three Months Ended   | Non-Guarantor |              | Holly Corp. Non-Guarantor |              | Holly Corp. Non-Guarantor |               | Holly Corp. Non-Guarantor |              |
|--|---------------|--------------|---------------------------|--------------|---------------------------|---------------|---------------------------|--------------|
|  | Parent        | Subsidiaries | Subsidiaries              | Eliminations | Consolidation             | Subsidiaries  | Eliminations              | Consolidated |
| March 31, 2009   | Restricted    | Restricted   | Restricted                | Restricted   | of HEP                    | (HEP Segment) | Eliminations              | Consolidated |
|  |               |              |                           |              | (In thousands)            |               |                           |              |
| Sales and other revenues                                     | \$ 98         | \$ 636,882   | \$ 29                     | \$           | \$ 637,009                | \$ 29,332     | \$ (18,311)               | \$ 648,030   |
| Operating costs and expenses:                                |               |              |                           |              |                           |               |                           |              |
| Cost of products sold  |               | 529,716      | 123                       |              | 529,839                   |               | (18,185)                  | 511,654      |
| Operating expenses   |               | 56,434       |                           |              | 56,434                    | 10,342        | (28)                      | 66,748       |
| General and administrative expenses                          | 9,956         | 564          |                           |              | 10,520                    | 1,334         | (98)                      | 11,756       |
| Depreciation and amortization                                | 972           | 13,214       | 317                       |              | 14,503                    | 5,578         |                           | 20,081       |
| Total operating costs and expenses                           | 10,928        | 599,928      | 440                       |              | 611,296                   | 17,254        | (18,311)                  | 610,239      |
| Income (loss) from operations                                | (10,830)      | 36,954       | (411)                     |              | 25,713                    | 12,078        |                           | 37,791       |
| Other income (expense):                                      |               |              |                           |              |                           |               |                           |              |
| Equity in earnings of subsidiaries                           | 43,414        | 4,895        | 5,220                     | (48,309)     | 5,220                     |               | (5,220)                   |              |
| Interest income (expense)                                    | 391           | 1,565        | 8                         |              | 1,964                     | (6,007)       |                           | (4,043)      |
| Other income (expense)                                       |               |              |                           |              |                           | (2,325)       | 2,500                     | 175          |
|  | 43,805        | 6,460        | 5,228                     | (48,309)     | 7,184                     | (8,332)       | (2,720)                   | (3,868)      |
| Income (loss) from continuing operations before income taxes | 32,975        | 43,414       | 4,817                     | (48,309)     | 32,897                    | 3,745         | (2,720)                   | 33,923       |



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|   |           |           |          |             |           |          |            |           |
|---|-----------|-----------|----------|-------------|-----------|----------|------------|-----------|
| Income tax provision                                      | 12,039    |           |          |             | 12,039    | 73       | (263)      | 11,849    |
| Income from continuing operations                         | 20,936    | 43,414    | 4,817    | (48,309)    | 20,858    | 3,673    | (2,457)    | 22,074    |
| Income from discontinued operations                       |           |           |          |             |           | 1,594    | (263)      | 1,331     |
| Net Income  | 20,936    | 43,414    | 4,817    | (48,309)    | 20,858    | 5,267    | (2,720)    | 23,405    |
| Less net income attributable to noncontrolling interest   |           |           |          | 78          | (78)      |          | 1,538      | 1,460     |
| Net income attributable to Holly Corporation stockholders | \$ 20,936 | \$ 43,414 | \$ 4,817 | \$ (48,231) | \$ 20,936 | \$ 5,267 | \$ (4,258) | \$ 21,945 |

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

| <b>Three Months Ended</b>                                    | <b>Non-Guarantor</b> |                     | <b>Holly Corp. Non-Guarantor</b> |                             |  |                     |                     |
|--|----------------------|---------------------|----------------------------------|-----------------------------|--|---------------------|---------------------|
|  | <b>Restricted</b>    | <b>Restricted</b>   | <b>Restricted</b>                | <b>Before Consolidation</b> | <b>Non-Restricted Subsidiaries (HEP Segment)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <b>March 31, 2010</b>  | <b>Parent</b>        | <b>Subsidiaries</b> | <b>Subsidiaries</b>              | <b>Eliminations of HEP</b>  | <b>Eliminations</b>                              |                     |                     |
|  | (In thousands)       |                     |                                  |                             |  |                     |                     |
| Cash flows from operating activities                         | \$ (43,478)          | \$ (59,287)         | \$ 2,660                         | \$ (100,105)                | \$ 18,723  | \$ (8,642)          | \$ (90,024)         |
| Cash flows from investing activities                         |                      |                     |                                  |                             |  |                     |                     |
| Additions to properties, plants and equipment Holly          | (915)                | (19,209)            | (9,063)                          | (29,187)                    |  |                     | (29,187)            |
| Additions to properties, plants and equipment HEP            |                      |                     |                                  |                             | (39,145)   | 37,234              | (1,911)             |
| Purchases of marketable securities                           |                      |                     |                                  |                             |  |                     |                     |
| Proceeds from sale of assets                                 |                      | 37,234              |                                  | 37,234                      |  | (37,234)            |                     |
|  | (915)                | 18,025              | (9,063)                          | 8,047                       | (39,145)   |                     | (31,098)            |
| Cash flows from financing activities                         |                      |                     |                                  |                             |  |                     |                     |
| Proceeds from issuance of senior notes Holly Energy Partners |                      |                     |                                  |                             | 147,540  |                     | 147,540             |
| Net borrowings under credit agreements                       |                      |                     |                                  |                             | (35,000)   |                     | (35,000)            |
| Purchase of treasury stock                                   | (1,055)              |                     |                                  | (1,055)                     |  |                     | (1,055)             |
| Contribution from joint venture partner                      |                      | (3,750)             | 5,000                            | 1,250                       |  |                     | 1,250               |
| Dividends  | (7,926)              |                     |                                  | (7,926)                     |  |                     | (7,926)             |
| Distributions to noncontrolling interest                     |                      |                     |                                  |                             | (20,506)   | 8,543               | (11,963)            |
| Issuance of common units upon exercise of stock options      | 61                   |                     |                                  | 61                          |  |                     | 61                  |
| Excess tax expense from equity based compensation            | (1,045)              |                     |                                  | (1,045)                     |  |                     | (1,045)             |
|  |                      | 55,766              |                                  | 55,766                      | (55,766)   |                     |                     |

|   |           |            |          |           |           |       |           |
|---|-----------|------------|----------|-----------|-----------|-------|-----------|
| Purchase price in excess<br>of transferred basis in<br>assets |           |            |          |           |           |       |           |
| Purchase of units for HEP<br>restricted grants                |           |            |          |           | (1,745)   |       | (1,745)   |
| Other financing activities,<br>net                            | (56)      | (345)      |          | (401)     |           | 99    | (302)     |
|   | (10,021)  | 51,671     | 5,000    | 46,650    | 34,523    | 8,642 | 89,815    |
| Cash and cash equivalents                                     |           |            |          |           |           |       |           |
| Increase (decrease) for the<br>period                         | (54,414)  | 10,409     | (1,403)  | (45,408)  | 14,101    |       | (31,307)  |
| Beginning of period   | 127,560   | (12,477)   | 7,005    | 122,088   | 2,508     |       | 124,596   |
| End of period   | \$ 73,146 | \$ (2,068) | \$ 5,602 | \$ 76,680 | \$ 16,609 | \$    | \$ 93,289 |

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

| Three Months Ended March 31, 2009                       | Non-Guarantor Restricted Restricted |              |              |              | Holly Corp. Non-Guarantor Before Non-Restricted Consolidation | Subsidiaries (HEP) |            | Consolidated |
|---|-------------------------------------|--------------|--------------|--------------|---|--------------------|------------|--------------|
|   | Parent                              | Subsidiaries | Subsidiaries | Eliminations | HEP Segment   | Eliminations       |            |              |
|   |                                     |              |              |              |   |                    |            |              |
|   | (In thousands)                      |              |              |              |   |                    |            |              |
| Cash flows from operating activities                    | \$ (90,387)                         | \$ 85,748    | \$ (330)     | \$           | \$ (4,969)  | \$ 9,556           | \$ (6,902) | \$ (2,315)   |
| Cash flows from investing activities                    |                                     |              |              |              |   |                    |            |              |
| Additions to properties, plants and equipment Holly     | (419)                               | (76,673)     | (11,566)     |              | (88,658)  |                    |            | (88,658)     |
| Additions to properties, plants and equipment HEP       |                                     |              |              |              |   | (10,570)           |            | (10,570)     |
| Investment in SLC Pipeline                              |                                     |              |              |              |   | (25,500)           |            | (25,500)     |
| Purchases of marketable securities                      | (128,707)                           |              |              |              | (128,707)   |                    |            | (128,707)    |
| Sales and maturities of marketable securities           | 183,096                             |              |              |              | 183,096   |                    |            | 183,096      |
|   | 53,970                              | (76,673)     | (11,566)     |              | (34,269)  | (36,070)           |            | (70,339)     |
| Cash flows from financing activities                    |                                     |              |              |              |   |                    |            |              |
| Net repayments under credit agreement                   | 55,000                              |              |              |              | 55,000  | 40,000             |            | 95,000       |
| Purchase of treasury stock                              | (1,214)                             |              |              |              | (1,214)   |                    |            | (1,214)      |
| Contribution from joint venture partner                 |                                     | (8,250)      | 13,000       |              | 4,750   | (13,818)           | 13,818     | 4,750        |
| Dividends   | (7,502)                             |              |              |              | (7,502)   |                    |            | (7,502)      |
| Distributions to noncontrolling interest                |                                     |              |              |              |   |                    | (6,916)    | (6,916)      |
| Issuance of common units upon exercise of stock options | 45                                  |              |              |              | 45  |                    |            | 45           |
| Excess tax benefit from equity based compensation       | 2,180                               |              |              |              | 2,180   |                    |            | 2,180        |
| Purchase of units for HEP restricted grants             |                                     |              |              |              |   | (616)              |            | (616)        |
|   | 48,509                              | (8,250)      | 13,000       |              | 53,259  | 25,566             | 6,902      | 85,727       |
| Cash and cash equivalents                               |                                     |              |              |              |   |                    |            |              |
| Increase (decrease) for the period                      | 12,092                              | 825          | 1,104        |              | 14,021  | (948)              |            | 13,073       |
| Beginning of period                                     | 33,316                              | (1,182)      | 3,402        |              | 35,536  | 5,269              |            | 40,805       |
| End of period   | \$ 45,408                           | \$ (357)     | \$ 4,506     | \$           | \$ 49,557   | \$ 4,321           | \$         | \$ 53,878    |



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Item 2 contains forward-looking statements. See Forward-Looking Statements at the beginning of Part I of this Quarterly Report on Form 10-Q. In this document, the words we, our, ours and us refer only to Holly Corporation, its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person. For periods after our reconsolidation of Holly Energy Partners, L.P. (HEP) effective March 1, 2008, the words we, our, ours and us generally include HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation with certain exceptions where there are transactions or obligations between HEP and Holly Corporation or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of Holly Corporation. When used in descriptions of agreements and transactions, HEP refers to HEP and its consolidated subsidiaries.

**OVERVIEW**

We are principally an independent petroleum refiner operating three refineries consisting of refinery facilities in Artesia and Lovington, New Mexico (collectively, the Navajo Refinery), Woods Cross, Utah (the Woods Cross Refinery) and two refinery facilities in Tulsa, Oklahoma (the Tulsa Refinery). As of March 31, 2010, our refineries had a combined crude capacity of 256,000 BPSD. Our profitability depends largely on the spread between market prices for refined petroleum products and crude oil prices. At March 31, 2010, we also owned a 34% interest in HEP (including the 2% general partner interest) which owns and operates pipeline and terminalling assets, and owns a 25% interest in SLC Pipeline LLC (the SLC Pipeline).

Our principal source of revenue is from the sale of high value light products such as gasoline, diesel fuel, jet fuel and specialty lubricant products in markets in the Southwest, Rocky Mountain and Mid-Continent regions of the United States and northern Mexico. For the three months ended March 31, 2010, sales and other revenues were \$1,874.3 million and net loss attributable to Holly Corporation stockholders was \$28.1 million. For the three months ended March 31, 2009, sales and other revenues from continuing operations were \$648 million and net income attributable to Holly Corporation stockholders was \$21.9 million. Our principal expenses are costs of products sold and operating expenses. Our total operating costs and expenses for the three months ended March 31, 2010 were \$1,897 million compared to \$610.2 million for the three months ended March 31, 2009.

On June 1, 2009, we acquired an 85,000 BPSD refinery located in Tulsa, Oklahoma (the Tulsa Refinery west facility) from an affiliate of Sunoco, Inc. (Sunoco) for \$157.8 million in cash, including crude oil, refined product and other inventories valued at \$92.8 million. The refinery produces fuel products including gasoline, diesel fuel and jet fuel and serves markets in the Mid-Continent region of the United States and also produces specialty lubricant products that are marketed throughout North America and are distributed in Central and South America.

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

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

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

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

|  | <b>Three Months Ended</b>             |             | <b>Change from 2009</b> |                |
|--|---------------------------------------|-------------|-------------------------|----------------|
|  | <b>2010</b>                           | <b>2009</b> | <b>Change</b>           | <b>Percent</b> |
|  | (In thousands, except per share data) |             |                         |                |
| Sales and other revenues   | \$ 1,874,290                          | \$ 648,030  | \$ 1,226,260            | 189.2%         |
| Operating costs and expenses:  |                                       |             |                         |                |
| Cost of products sold (exclusive of depreciation and amortization)               | 1,723,864                             | 511,654     | 1,212,210               | 236.9          |
| Operating expenses (exclusive of depreciation and amortization)                  | 127,544                               | 66,748      | 60,796                  | 91.1           |
| General and administrative expenses (exclusive of depreciation and amortization) | 17,869                                | 11,756      | 6,113                   | 52.0           |
| Depreciation and amortization  | 27,757                                | 20,081      | 7,676                   | 38.2           |
| Total operating costs and expenses   | 1,897,034                             | 610,239     | 1,286,795               | 210.9          |
| Income (loss) from operations  | (22,744)                              | 37,791      | (60,535)                | (160.2)        |
| Other income (expense):  |                                       |             |                         |                |
| Equity in earnings of SLC Pipeline   | 481                                   | 175         | 306                     | 174.9          |
| Interest income  | 59                                    | 2,196       | (2,137)                 | (97.3)         |
| Interest expense   | (17,722)                              | (6,239)     | (11,483)                | 184.1          |
|  | (17,182)                              | (3,868)     | (13,314)                | 344.2          |
| Income (loss) from continuing operations before income taxes                     | (39,926)                              | 33,923      | (73,849)                | (217.7)        |
| Income tax provision   | (16,672)                              | 11,849      | (28,521)                | (240.7)        |
| Income (loss) from continuing operations   | (23,254)                              | 22,074      | (45,328)                | (205.3)        |
| Income from discontinued operations, net of taxes                                |                                       | 1,331       | (1,331)                 | (100.0)        |
| Net income (loss)  | (23,254)                              | 23,405      | (46,659)                | (199.4)        |
| Less net income attributable to noncontrolling interest                          | 4,840                                 | 1,460       | 3,380                   | 231.5          |
| Net income (loss) attributable to Holly Corporation stockholders                 | \$ (28,094)                           | \$ 21,945   | \$ (50,039)             | (228.0)%       |
| Earnings attributable to Holly Corporation stockholders:                         |                                       |             |                         |                |

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|  |             |           |             |          |
|--|-------------|-----------|-------------|----------|
| Income (loss) from continuing operations   | \$ (28,094) | \$ 21,553 | \$ (49,647) | (230.3)% |
| Income from discontinued operations  |             | 392       | (392)       | (100.0)  |
| Net income (loss)  | \$ (28,094) | \$ 21,945 | \$ (50,039) | (228.0)% |
| Earnings per share attributable to Holly Corporation stockholders basic and diluted: |             |           |             |          |
| Income (loss) from continuing operations   | \$ (0.53)   | \$ 0.43   | \$ (0.96)   | (223.3)% |
| Income from discontinued operations  |             | 0.01      | (0.01)      | (100.0)  |
| Net income (loss)  | \$ (0.53)   | \$ 0.44   | \$ (0.97)   | (220.5)% |
| Cash dividends declared per common share   | \$ 0.15     | \$ 0.15   | \$          | %        |
| Average number of common shares outstanding:   |             |           |             |          |
| Basic  | 53,094      | 50,042    | 3,052       | 6.1%     |
| Diluted  | 53,232      | 50,171    | 3,061       | 6.1%     |

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

|   | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|---------------------------|------------------------------|
|   | (In thousands)            |                              |
| Cash, cash equivalents and investments in marketable securities | \$ 94,756                 | \$ 125,819                   |
| Working capital   | \$ 297,879                | \$ 257,899                   |
| Total assets  | \$ 3,382,327              | \$ 3,145,939                 |
| Long-term debt Holly Corporation                                | \$ 328,268                | \$ 328,260                   |
| Long-term debt Holly Energy Partners                            | \$ 492,327                | \$ 379,198                   |
| Total equity  | \$ 1,163,511              | \$ 1,207,781                 |

**Other Financial Data (Unaudited)**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
|  | (In thousands)                          |             |
| Net cash used for operating activities           | \$ (90,024)                             | \$ (2,315)  |
| Net cash used for investing activities           | \$ (31,098)                             | \$ (70,339) |
| Net cash provided by financing activities        | \$ 89,815                               | \$ 85,727   |
| Capital expenditures                             | \$ 31,098                               | \$ 99,228   |
| EBITDA from continuing operations <sup>(1)</sup> | \$ 654                                  | \$ 57,526   |

(1) Earnings before interest, taxes, depreciation and amortization, which we refer to as ( EBITDA ), is calculated as net income plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are

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

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

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

|                          | <b>Three Months Ended</b> |             |
|--------------------------|---------------------------|-------------|
|                          | <b>March 31,</b>          |             |
|                          | <b>2010</b>               | <b>2009</b> |
|                          | (In thousands)            |             |
| Sales and other revenues |                           |             |
| Refining <sup>(1)</sup>  | \$ 1,867,174              | \$ 636,910  |
| HEP <sup>(2)</sup>       | 40,689                    | 29,332      |
| Corporate and Other      | 66                        | 99          |
| Eliminations             | (33,639)                  | (18,311)    |
| Consolidated             | \$ 1,874,290              | \$ 648,030  |
| Operating income (loss)  |                           |             |
| Refining <sup>(1)</sup>  | \$ (24,579)               | \$ 38,705   |
| HEP <sup>(2)</sup>       | 18,261                    | 12,078      |
| Corporate and Other      | (15,767)                  | (12,992)    |
| Eliminations             | (659)                     |             |
| Consolidated             | \$ (22,744)               | \$ 37,791   |

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

products produced at our Tulsa Refinery are marketed throughout North America and are distributed in Central and South America. Holly Asphalt manufactures and markets asphalt and asphalt products in Arizona, New Mexico, Texas and northern Mexico.

- (2) The HEP segment involves all of the operations of HEP. HEP owns and operates a system of petroleum product and crude gathering pipelines and refinery tankage in Texas, New Mexico, Oklahoma and Utah, and distribution terminals in Texas, New Mexico, Arizona, Utah, Idaho, Oklahoma and Washington. Revenues are generated by charging tariffs for transporting petroleum products and

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

**Refining Operating Data (Unaudited)**

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

|  |                           |             |
|--|---------------------------|-------------|
|  | <b>Three Months Ended</b> |             |
|  | <b>March 31,</b>          |             |
|  | <b>2010</b>               | <b>2009</b> |

**Navajo Refinery**

|  |           |          |
|--|-----------|----------|
| Crude charge (BPD) <sup>(1)</sup>              | 78,910    | 57,685   |
| Refinery production (BPD) <sup>(2)</sup>       | 87,530    | 63,061   |
| Sales of produced refined products (BPD)       | 86,930    | 62,147   |
| Sales of refined products (BPD) <sup>(3)</sup> | 90,120    | 71,138   |
| Refinery utilization <sup>(4)</sup>            | 78.9%     | 67.9%    |
| Average per produced barrel <sup>(5)</sup>     |           |          |
| Net sales                                      | \$ 88.06  | \$ 57.37 |
| Cost of products <sup>(6)</sup>                | 82.96     | 44.92    |
| Refinery gross margin                          | 5.10      | 12.45    |
| Refinery operating expenses <sup>(7)</sup>     | 5.18      | 6.17     |
| Net operating margin                           | \$ (0.08) | \$ 6.28  |
| Feedstocks:                                    |           |          |
| Sour crude oil                                 | 87%       | 87%      |
| Sweet crude oil                                | 4%        | 8%       |
| Other feedstocks and blends                    | 9%        | 5%       |
| Total  | 100%      | 100%     |
| Sales of produced refined products:            |           |          |
| Gasolines                                      | 59%       | 61%      |
| Diesel fuels                                   | 30%       | 31%      |
| Jet fuels                                      | 4%        | 1%       |
| Fuel oil                                       | 4%        | 1%       |
| Asphalt  | 1%        | 3%       |
| LPG and other                                  | 2%        | 3%       |
| Total  | 100%      | 100%     |

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|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| <b><i>Woods Cross Refinery</i></b>             |   |             |
| Crude charge (BPD) <sup>(1)</sup>              | 25,680                                  | 23,309      |
| Refinery production (BPD) <sup>(2)</sup>       | 26,540                                  | 23,286      |
| Sales of produced refined products (BPD)       | 28,170                                  | 27,024      |
| Sales of refined products (BPD) <sup>(3)</sup> | 28,360                                  | 27,664      |
| Refinery utilization <sup>(4)</sup>            | 82.8%                                   | 75.2%       |
| Average per produced barrel <sup>(5)</sup>     |   |             |
| Net sales                                      | \$ 89.52                                | \$ 50.31    |
| Cost of products <sup>(6)</sup>                | 74.72                                   | 39.57       |
| Refinery gross margin                          | 14.80                                   | 10.74       |
| Refinery operating expenses <sup>(7)</sup>     | 6.20                                    | 6.92        |
| Net operating margin                           | \$ 8.60                                 | \$ 3.82     |
| Feedstocks:                                    |   |             |
| Sour crude oil                                 | 8%                                      | 3%          |
| Sweet crude oil                                | 61%                                     | 66%         |
| Black wax crude oil                            | 28%                                     | 29%         |
| Other feedstocks and blends                    | 3%                                      | 2%          |
| Total  | 100%                                    | 100%        |
| Sales of produced refined products:            |   |             |
| Gasolines                                      | 64%                                     | 68%         |
| Diesel fuels                                   | 28%                                     | 23%         |
| Jet fuels                                      | 1%                                      | 1%          |
| Fuel oil                                       | 1%                                      | 4%          |
| Asphalt  | 3%                                      | 1%          |
| LPG and other                                  | 3%                                      | 3%          |
| Total  | 100%                                    | 100%        |
| <b><i>Tulsa Refinery</i></b>                   |   |             |
| Crude charge (BPD) <sup>(1)</sup>              | 103,600                                 |             |
| Refinery production (BPD) <sup>(2)</sup>       | 102,890                                 |             |
| Sales of produced refined products (BPD)       | 98,760                                  |             |
| Sales of refined products (BPD) <sup>(3)</sup> | 100,620                                 |             |
| Refinery utilization <sup>(4)</sup>            | 82.9%                                   | %           |



|  |    |        |    |
|--|----|--------|----|
| Average per produced barrel <sup>(5)</sup> |    |        |    |
| Net sales                                  | \$ | 86.22  | \$ |
| Cost of products <sup>(6)</sup>            |    | 82.89  |    |
| Refinery gross margin                      |    | 3.33   |    |
| Refinery operating expenses <sup>(7)</sup> |    | 5.91   |    |
| Net operating margin                       | \$ | (2.58) | \$ |
| Feedstocks:                                |    |        |    |
| Sweet crude oil                            |    | 100%   | %  |
| Sales of produced refined products:        |    |        |    |
| Gasolines                                  |    | 41%    | %  |
| Diesel fuels                               |    | 30%    | %  |
| Jet fuels                                  |    | 9%     | %  |
| Lubricants                                 |    | 10%    | %  |
| Asphalt                                    |    | 4%     | %  |
| Gas oil / intermediates                    |    | 2%     | %  |
| LPG and other                              |    | 4%     | %  |
| Total                                      |    | 100%   | %  |

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|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| <b><i>Consolidated</i></b>                     |   |             |
| Crude charge (BPD) <sup>(1)</sup>              | 208,190                                 | 80,994      |
| Refinery production (BPD) <sup>(2)</sup>       | 216,960                                 | 86,347      |
| Sales of produced refined products (BPD)       | 213,860                                 | 89,171      |
| Sales of refined products (BPD) <sup>(3)</sup> | 219,100                                 | 98,802      |
| <br>   |   |             |
| Refinery utilization <sup>(4)</sup>            | 81.3%                                   | 69.8%       |
| <br>   |   |             |
| Average per produced barrel <sup>(5)</sup>     |   |             |
| Net sales                                      | \$ 87.40                                | \$ 55.23    |
| Cost of products <sup>(6)</sup>                | 81.84                                   | 43.30       |
| <br>   |   |             |
| Refinery gross margin                          | 5.56                                    | 11.93       |
| Refinery operating expenses <sup>(7)</sup>     | 5.65                                    | 6.40        |
| <br>   |   |             |
| Net operating margin                           | \$ (0.09)                               | \$ 5.53     |
| <br>   |   |             |
| Feedstocks:                                    |   |             |
| Sour crude oil                                 | 36%                                     | 64%         |
| Sweet crude oil                                | 56%                                     | 24%         |
| Black wax crude oil                            | 3%                                      | 8%          |
| Other feedstocks and blends                    | 5%                                      | 4%          |
| <br>   |   |             |
| Total  | 100%                                    | 100%        |
| <br>   |   |             |
| Sales of produced refined products:            |   |             |
| Gasolines                                      | 51%                                     | 63%         |
| Diesel fuels                                   | 30%                                     | 29%         |
| Jet fuels                                      | 6%                                      | 1%          |
| Fuel oil                                       | 2%                                      | 2%          |
| Asphalt  | 3%                                      | 2%          |
| Lubricants                                     | 4%                                      | %           |
| Gas oil / intermediates                        | 1%                                      | %           |
| LPG and other                                  | 3%                                      | 3%          |
| <br>   |   |             |
| Total  | 100%                                    | 100%        |

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

refineries.

- (2) Refinery production represents the barrels per day of refined products yielded from processing crude and other refinery feedstocks through the crude units and other conversion units at our refineries.
- (3) Includes refined products purchased for resale.
- (4) Represents crude charge divided by total crude capacity (BPSD). Our consolidated crude capacity was increased by 15,000 BPSD effective April 1, 2009 (our Navajo Refinery expansion) and 85,000 BPSD effective June 1, 2009 (our Tulsa Refinery west facility acquisition) and 40,000 BPSD effective December 1, 2009 (our Tulsa Refinery east facility acquisition), increasing our

consolidated  
crude capacity  
to 256,000  
BPSD.

- (5) Represents average per barrel amount for produced refined products sold, which is a non-GAAP measure. Reconciliations to amounts reported under GAAP are provided under Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part I of this Form 10-Q.
- (6) Transportation, terminal and refinery storage costs billed from HEP are included in cost of products.
- (7) Represents operating expenses of our refineries, exclusive of depreciation and amortization.

**Table of Contents****Results of Operations Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009*****Summary***

Net loss attributable to Holly Corporation stockholders for the three months ended March 31, 2010 was \$28.1 million (\$0.53 per basic and diluted share), a \$50 million decrease compared to net income of \$21.9 million (\$0.43 per basic and diluted share) for the three months ended March 31, 2009. Net income decreased principally due to industry-wide, low refinery gross margins during the three months ended March 31, 2010. Overall refinery gross margins for the three months ended March 31, 2010 were \$5.56 per produced barrel compared to \$11.93 for the three months ended March 31, 2009.

Overall production levels for the three months ended March 31, 2010 increased by 151% over the same period of 2009 due to production from our recently acquired Tulsa Refinery facilities combined with higher production levels at our Navajo and Woods Cross Refineries. Additionally, production levels were lower during the first quarter of 2009 due to scheduled downtime during a planned major maintenance turnaround at our Navajo Refinery.

***Sales and Other Revenues***

Sales and other revenues from continuing operations increased 189% from \$648 million for the three months ended March 31, 2009 to \$1,874.3 million for the three months ended March 31, 2010, due principally to the effects of a 140% increase in year-over-year first quarter volumes of produced refined products sold combined with an overall increase in sales prices of produced refined products sold. The average sales price we received per produced barrel sold increased 58% from \$55.23 for the three months ended March 31, 2009 to \$87.40 for the three months ended March 31, 2010. Sales and other revenues for the three months ended March 31, 2010 and 2009, include \$7.1 million and \$11 million, respectively, in HEP revenues attributable to pipeline and transportation services provided to unaffiliated parties.

***Cost of Products Sold***

Cost of products sold increased 237% from \$511.7 million for the three months ended March 31, 2009 to \$1,723.9 million for the three months ended March 31, 2010, due principally to significantly higher crude oil costs combined with a 140% increase in volumes of produced refined products sold. The average price we paid per produced barrel sold for crude oil and feedstocks and the transportation costs of moving the finished products to the market place increased 89% from \$43.30 for the three months ended March 31, 2009 to \$81.84 for the three months ended March 31, 2010.

***Gross Refinery Margins***

Gross refinery margin per produced barrel decreased 53% from \$11.93 for the three months ended March 31, 2009 to \$5.56 for the three months ended March 31, 2010 due to the effects of a increase in the average price we paid per barrel of crude oil and feedstocks, partially offset by an increase in the average sales price we received per produced barrel sold. Gross refinery margin does not include the effects of depreciation and amortization. See Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles following Item 3 of Part 1 of this Form 10-Q for a reconciliation to the income statement of prices of refined products sold and cost of products purchased.

***Operating Expenses***

Operating expenses, exclusive of depreciation and amortization, increased 91% from \$66.7 million for the three months ended March 31, 2009 to \$127.5 million for the three months ended March 31, 2010, due principally to the inclusion of costs attributable to the operations of our Tulsa Refinery facilities acquired in June and December 2009, and higher refinery utility costs.

***General and Administrative Expenses***

General and administrative expenses increased 52% from \$11.8 million for the three months ended March 31, 2009 to \$17.9 million for the three months ended March 31, 2010, due principally to costs associated with the support and integration of our Tulsa Refinery operations, increased payroll costs and professional services.

***Depreciation and Amortization Expenses***

Depreciation and amortization increased 38% from \$20.1 million for the three months ended March 31, 2009 to \$27.8 million for the three months ended March 31, 2010. The increase was due principally to depreciation and amortization attributable to our Tulsa Refinery facilities and capitalized refinery improvement projects in 2009.



**Table of Contents*****Interest Expense***

Interest expense was \$17.7 million for the three months ended March 31, 2010 compared to \$6.2 million for the three months ended March 31, 2009. The increase was due principally to interest incurred on the \$300 million Holly 9.875% senior notes due 2017. For the three months ended March 31, 2010 and 2009, interest expense included \$8.1 million and \$6 million, respectively, in interest costs attributable to HEP operations.

***Income Taxes***

For the three months ended March 31, 2010 we recorded an income tax benefit of \$16.7 million compared to income tax expense of \$11.8 million for the three months ended March 31, 2009. This decrease was due principally to our net loss for the three months ended March 31, 2010.

***Discontinued Operations***

On December 1, 2009, HEP sold its 70% interest in Rio Grande. Rio Grande operations generated earnings, net of HEP's noncontrolling interest in discontinued operations, of \$1.3 million for the three months ended March 31, 2009.

**LIQUIDITY AND CAPITAL RESOURCES*****Holly Credit Agreement***

We have a \$370 million senior secured credit agreement expiring in March 2013 (the "Holly Credit Agreement") with Bank of America, N.A. as administrative agent and one of a syndicate of lenders. The Holly Credit Agreement may be used to fund working capital requirements, capital expenditures, permitted acquisitions or other general corporate purposes. We were in compliance with all covenants at March 31, 2010. At March 31, 2010, we had no outstanding borrowings and letters of credit totaling \$114.5 million under the Holly Credit Agreement. At that level of usage, the unused commitment was \$255.5 million at March 31, 2010.

Refinery gross margins were substantially reduced in the first quarter of 2010 and the fourth quarter of 2009, resulting in two consecutive quarterly losses. We entered into an amendment to the Holly Credit Agreement on May 6, 2010 that changed certain financial covenants and provided other enhancements to the agreement. We expect to be in compliance with the Holly Credit Agreement covenant requirements as long as refinery margins show marked improvement over the levels experienced in the first quarter of 2010 and the fourth quarter of 2009. If a situation were to arise in which margins stayed depressed for a prolonged period of time, we could potentially need to renegotiate certain covenants under the Holly Credit Agreement.

There are currently a total of fourteen lenders under the Holly Credit Agreement with individual commitments ranging from \$15 million to \$47.5 million. If any particular lender could not honor its commitment, we believe the unused capacity that would be available from the remaining lenders would be sufficient to meet our borrowing needs. Additionally, we have reviewed publicly available information on our lenders in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the Holly Credit Agreement. We have not experienced, nor do we expect to experience, any difficulty in the lenders' ability to honor their respective commitments, and if it were to become necessary, we believe there would be alternative lenders or options available.

***HEP Credit Agreement***

HEP has a \$300 million senior secured revolving credit agreement expiring in August 2011 (the "HEP Credit Agreement"). The HEP Credit Agreement is available to fund capital expenditures, acquisitions, working capital and for other general partnership purposes. At March 31, 2010, HEP had outstanding borrowings totaling \$171 million under the HEP Credit Agreement, with unused borrowing capacity of \$129 million. HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets. HEP assets that are included in our Consolidated Balance Sheet at March 31, 2010 consist of \$16.6 million in cash and cash equivalents, \$21 million in accounts receivable and other current assets, \$491.7 million in properties, plants and equipment, net and \$156.7 million in intangible and other assets. Indebtedness under the HEP Credit Agreement is recourse to HEP Logistics Holdings, L.P., its general partner, and guaranteed by HEP's wholly-owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. During the first quarter of 2010, our previous agreements to indemnify HEP's controlling partner to the extent it makes any payment in satisfaction of debt service due on up to a \$171 million aggregate principal amount of borrowings under the HEP Credit Agreement were terminated.





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There are currently a total of thirteen lenders under the HEP Credit Agreement with individual commitments ranging from \$15 million to \$40 million. If any particular lender could not honor its commitment, HEP believes the unused capacity that would be available from the remaining lenders would be sufficient to meet its borrowing needs. Additionally, publicly available information on these lenders is reviewed in order to monitor their financial stability and assess their ongoing ability to honor their commitments under the HEP Credit Agreement. HEP has not experienced, nor do they expect to experience, any difficulty in the lenders' ability to honor their respective commitments, and if it were to become necessary, HEP believes there would be alternative lenders or options available.

***Holly Senior Notes Due 2017***

In June 2009, we issued \$200 million in aggregate principal amount of 9.875% senior notes maturing June 15, 2017 (the Holly 9.875% Senior Notes). A portion of the \$188 million in net proceeds received was used for post-closing payments for inventories of crude oil and refined products acquired from Sunoco following the closing of the Tulsa Refinery west facility purchase on June 1, 2009. In October 2009, we issued an additional \$100 million aggregate principal amount as an add-on offering to the Holly 9.875% Senior Notes that was used to fund the cash portion of our acquisition of the Tulsa Refinery east facility.

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

***HEP Senior Notes Due 2018 and 2015***

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

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

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

See Risk Management for a discussion of HEP's interest rate swap contracts.

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

On October 20, 2009, we sold approximately 400,000 barrels of crude oil tankage at our Tulsa Refinery west facility as well as certain crude oil pipeline receiving facilities to Plains All American Pipeline, L.P. ( Plains ) for \$40 million in cash. In connection with this transaction, we entered into a 15-year lease agreement with Plains, whereby we agreed to pay a fixed monthly fee for the exclusive use of this tankage as well as a fee for volumes received at the receiving facilities purchased by Plains. Additionally, we have a margin sharing agreement with Plains under which we will equally share contango profits with Plains for crude oil purchased by them and delivered to our Tulsa Refinery west facility for storage. Due to our continuing involvement in these assets, this transaction has been accounted for as a financing obligation. As a result, we retained these assets on our books and recorded a liability representing the \$40 million in proceeds received.

***HEP Equity Offerings***

In November 2009, HEP closed on a public offering of 2,185,000 of its common units priced at \$35.78 per unit. Aggregate net proceeds of \$74.9 million were used to fund the cash portion of HEP's December 1, 2009 asset acquisitions, to repay outstanding borrowings under the HEP Credit Agreement and for general partnership purposes. Additionally in May 2009, HEP closed a public offering of 2,192,400 of its common units priced at \$27.80 per unit. Net proceeds of \$58.4 million were used to repay outstanding borrowings under the HEP Credit Agreement and for general partnership purposes.

***Liquidity***

We believe our current cash and cash equivalents, along with future internally generated cash flow and funds available under our credit facilities will provide sufficient resources to fund currently planned capital projects, including our planned integration of the Tulsa Refinery facilities, and our liquidity needs for the foreseeable future. In addition, components of our growth strategy may include construction of new refinery processing units and the expansion of existing units at our facilities and selective acquisition of complementary assets for our refining operations intended to increase earnings and cash flow. Our ability to acquire complementary assets will be dependent upon several factors, including our ability to identify attractive acquisition candidates, consummate acquisitions on favorable terms, successfully integrate acquired assets and obtain financing to fund acquisitions and to support our growth, and many other factors beyond our control.

We consider all highly-liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, and are invested primarily in conservative, highly-rated instruments issued by financial institutions or government entities with strong credit standings. As of March 31, 2010, we had cash and cash equivalents of \$93.3 million and short-term investments in marketable securities of \$1.5 million.

Cash and cash equivalents decreased by \$31.3 million during the three months ended March 31, 2010. Net cash used for operating activities and investing activities of \$90 million and \$31.1 million, respectively, exceeded cash provided by financing activities of \$89.8 million. Working capital increased by \$40 million during the three months ended March 31, 2010.

***Cash Flows Operating Activities******Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009***

Net cash flows used for operating activities were \$90 million for the three months ended March 31, 2010 compared to \$2.3 million for the three months ended March 31, 2009, an increase of \$87.7 million. Our net loss for the three months ended March 31, 2010 was \$23.3 million, a decrease of \$46.7 million compared net income of \$23.4 million for the three months ended March 31, 2009. Non-cash adjustments consisting of depreciation and amortization, deferred income taxes, equity-based compensation expense, interest rate swap adjustments and noncontrolling interest in earnings of Rio Grande resulted in an increase to operating cash flows of \$10.1 million for the three months ended March 31, 2010 compared to \$24 million for the same period in 2009. Additionally, SLC Pipeline earnings in excess of distributions decreased operating cash flows by \$0.5 million and \$0.2 million for the three months ended March 31, 2010 and 2009, respectively. Changes in working capital items decreased cash flows by \$71.1 million for the three months ended March 31, 2010 compared to \$27.2 million for the three months ended March 31, 2009 due primarily to current quarter acquisitions of heavy crude oil line fill to be processed at our refineries. Additionally, for the three

months ended March 31, 2010, turnaround expenditures decreased to \$7.3 million from \$27 million in 2009 due to the planned major maintenance turnaround at our Navajo Refinery in the first quarter of 2009.

**Table of Contents****Cash Flows Investing Activities and Planned Capital Expenditures*****Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009***

Net cash flows used for investing activities were \$31.1 million for the three months ended March 31, 2010 compared to \$70.3 million for the three months ended March 31, 2009, a decrease of \$39.2 million. Cash expenditures for properties, plants and equipment for the first three months of 2010 decreased to \$31.1 million from \$99.2 million for the same period in 2009. These include HEP capital expenditures of \$1.9 million and \$10.6 million for the three months ended March 31, 2010 and 2009, respectively. Capital expenditures were significantly higher in the first quarter of 2009 due to a higher level of capital project initiatives in 2009 including refinery expansion projects. During the three months ended March 31, 2009, we invested \$128.7 million in marketable securities and received proceeds of \$183.1 million from the sale or maturity of marketable securities. Additionally HEP purchased a 25% joint venture interest in the SLC Pipeline for \$25.5 million.

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

Each year our Board of Directors approves in our annual capital budget projects that our management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, other or special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures approved for capital projects included in the current year's capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. Our total approved capital budget for 2010 is \$159.6 million. Additionally, capital costs of \$38.8 million have been approved for refinery turnarounds and tank work. We currently expect to spend approximately \$165 million in capital costs in 2010, including capital projects approved in prior years. Our capital spending for 2010 is comprised of \$48.5 million for projects at the Navajo Refinery, \$10.8 million for projects at the Woods Cross Refinery, \$46.7 million for projects at the Tulsa Refinery, \$55 million for our portion of the Salt Lake City, Utah to Las Vegas, Nevada pipeline project (the UNEV Pipeline), \$1.5 million for asphalt plant projects and \$2.5 million for marketing-related and miscellaneous projects. The following summarizes our key capital projects.

We are proceeding with the integration project of our Tulsa Refinery west and east facilities. Upon completion, the Tulsa Refinery will have an integrated crude processing rate of 125,000 BPSD. The integration project involves the installation of interconnect pipelines that will permit us to transfer various intermediate streams between the two facilities. We have also signed a 10-year agreement with a third party for the use of an additional line for the transfer of gasoline blend stocks which is currently in service. These interconnect lines will allow us to eliminate the sale of gas oil at a discount to WTI under our 5-year gas oil off take agreement with a third party, optimize gasoline blending, increase our utilization of better process technology, and reduce operating costs. Also, as part of the integration, we are planning to expand the diesel hydrotreater unit at the east facility to permit the processing of all high sulfur diesel produced to ULSD, eliminating the need to construct a new diesel hydrotreater at our west facility as previously planned. This expansion is expected to cost approximately \$20 million and will use the reactor that we acquired as part of the Tulsa Refinery west facility acquisition. We are currently planning to complete the integration projects by the end of the 2010.

The combined Tulsa Refinery facilities also will be required to comply with new Control of Hazardous Air Pollutants from Mobile Sources (MSAT2) regulations in order to meet new benzene reduction requirements for gasoline. We have elected to largely use existing equipment at the Tulsa Refinery east facility to split reformat from reformers at both Tulsa Refinery west and east facilities and install a new benzene saturation unit to achieve the required benzene reduction at an estimated cost of approximately \$15 million. Our Tulsa Refinery is required to meet MSAT2 1.3% benzene levels in gasoline beginning in July 2012 and we expect to complete this project well before then. We will be required to buy credits until this project is complete, as required by law, beginning in 2011.

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Our consent decree with the EPA requires recovery of sulfur from the refinery fuel gas system at the Tulsa Refinery west facility by the end of 2013. We estimate our investment to comply with the requirements will be approximately \$20 million. The consent decree also requires shutdown, replacement, or installation of low NOx burners in two low pressure boilers by the end of 2013. We are still evaluating the best solution to this issue.

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

Also, we expect to complete our asphalt tankage project at the Navajo Refinery and at the Holly Asphalt facility in Artesia, New Mexico in August 2010, that will enhance asphalt economics by permitting the storage of asphalt during the winter months when asphalt prices are generally lower. These asphalt tank additions and the approved upgrade of our rail loading facilities at the Artesia refinery is expected to cost \$21 million.

The Navajo Refinery currently plans to comply with the new MSAT2 regulations by the fractionation of raw naphtha with existing equipment to achieve benzene in gasoline levels below 1.3%. The Navajo Refinery will purchase credits from the Woods Cross and Tulsa Refineries in order reduce benzene down to the required 0.62%. Due to our acquisition of the Tulsa Refinery facilities from Sunoco and Sinclair, our Navajo Refinery has until the end of 2011 to comply with the MSAT2 regulation because we have lost our small refiner's exemption and as a large refiner we have 30 months to comply.

Our Woods Cross refinery is required to install a wet gas scrubber on its FCC unit by the end of 2012. We estimate the total cost to be \$12 million. The MSAT2 solution for Woods Cross involves installing a new reformat splitter and a benzene saturation unit at an estimated cost of \$18 million. Like our Navajo Refinery, our Woods Cross Refinery has until the end of 2011 to comply with the MSAT2 regulations.

Under a definitive agreement with Sinclair, we are jointly building the UNEV Pipeline, a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas. Under the agreement, we own a 75% interest in the joint venture pipeline with Sinclair, our joint venture partner, owning the remaining 25% interest. The initial capacity of the pipeline will be 62,000 BPD, with the capacity for further expansion to 120,000 BPD. The total cost of the pipeline is expected to be \$275 million, with our share of the cost totaling \$206 million.

In connection with this project, we have entered into a 10-year commitment to ship an annual average of 15,000 barrels per day of refined products on the UNEV Pipeline at an agreed tariff. Our commitment for each year is subject to reduction by up to 5,000 barrels per day in specified circumstances relating to shipments by other shippers. We have an option agreement with HEP granting them an option to purchase all of our equity interests in this joint venture pipeline effective for a 180-day period commencing when the UNEV Pipeline becomes operational, at a purchase price equal to our investment in this joint venture pipeline plus interest at 7% per annum.

We currently anticipate that all regulatory approvals required to commence the construction of the UNEV Pipeline will be received by the end of the second quarter of 2010. Once such approvals are received, construction of the pipeline will take approximately nine months. Under this schedule, the pipeline would become operational during the second quarter of 2011.

Regulatory compliance items, such as the ULSD and LSG requirements mentioned above, or other presently existing or future environmental regulations / consent decrees could cause us to make additional capital investments beyond those described above and incur additional operating costs to meet applicable requirements.

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Each year the Holly Logistic Services, L.L.C. board of directors approves HEP's annual capital budget, which specifies capital projects that HEP management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, special projects may be approved. The funds allocated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, HEP's planned capital expenditures for a given year consist of expenditures approved for capital projects included in their current year's capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2010 HEP capital budget is comprised of \$4.8 million for maintenance capital expenditures and \$6 million for expansion capital expenditures.

**Cash Flows Financing Activities*****Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009***

Net cash flows provided by financing activities were \$89.8 million for the three months ended March 31, 2010 compared to \$85.7 million for the three months ended March 31, 2009, an increase of \$4.1 million. During the three months ended March 31, 2010, we purchased \$1.1 million in common stock from employees to provide funds for the payment of payroll and income taxes due upon the vesting of certain share-based incentive awards, paid \$7.9 million in dividends, received a \$1.3 million contribution from our UNEV Pipeline joint venture partner, received \$0.1 million for common stock issued upon the exercise of stock options and recognized \$1 million in taxes on our equity based compensation. Also during this period, HEP received \$147.5 million in proceeds upon the issuance of the HEP 8.25% Senior Notes, repaid net advances of \$35 million under the HEP Credit Agreement, paid distributions of \$12 million to noncontrolling interests and purchased \$1.7 million in HEP common units in the open market for recipients of its restricted unit grants. During the three months ended March 31, 2009, we received advances under the Holly Credit Agreement of \$55 million, purchased \$1.2 million in common stock from employees to provide funds for the payment of payroll and income taxes due upon the vesting of certain share-based incentive awards, paid \$7.5 million in dividends, received a \$4.8 million contribution from our UNEV Pipeline joint venture partner and recognized \$2.2 million in excess tax benefits on our equity based compensation. Also during this period, HEP received net advances of \$40 million under the HEP Credit Agreement, paid distributions of \$6.9 million to noncontrolling interests and purchased \$0.6 million in HEP common units in the open market for recipients of its 2009 restricted unit grants.

**Contractual Obligations and Commitments*****Holly Corporation***

There were no significant changes to our contractual obligations during the three months ended March 31, 2010.

***HEP***

During the three months ended March 31, 2010, HEP repaid net advances of \$35 million resulting in \$171 million of outstanding principal under the HEP Credit Agreement at March 31, 2010.

In March 2010, HEP issued \$150 million aggregate principal amount of HEP 8.25% Senior Notes maturing March 15, 2018.

There were no other significant changes to HEP's long-term contractual obligations during this period.

**Table of Contents****CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2009. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements are the use of the LIFO method of valuing certain inventories, the amortization of deferred costs for regular major maintenance and repairs at our refineries, assessing the possible impairment of certain long-lived assets, and assessing contingent liabilities for probable losses. There have been no changes to these policies in 2010.

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

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

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

On January 1, 2010, new accounting standards became effective that replace the previous quantitative-based risk and rewards calculation provided under GAAP with a qualitative approach in determining whether an entity is the primary beneficiary of a variable interest entity ( VIE ). Additionally, these standards require an entity to assess on an ongoing basis whether it is the primary beneficiary of a VIE and enhances disclosure requirements with respect to an entity's involvement in a VIE. See Note 3 Holly Energy Partners to the Consolidated Financial Statements under Item 1 for additional information on our involvement with HEP, a consolidated VIE.

**RISK MANAGEMENT**

We use certain strategies to reduce some commodity price and operational risks. We do not attempt to eliminate all market risk exposures when we believe that the exposure relating to such risk would not be significant to our future earnings, financial position, capital resources or liquidity or that the cost of eliminating the exposure would outweigh the benefit.

HEP uses interest rate swaps (derivative instruments) to manage its exposure to interest rate risk.

As of March 31, 2010, HEP has an interest rate swap to hedge its exposure to the cash flow risk caused by the effects of London Interbank Borrowed Rate ( LIBOR ) changes on a \$171 million HEP Credit Agreement advance. This interest rate swap effectively converts the \$171 million LIBOR based debt to fixed rate debt having an interest rate of 3.74% plus an applicable margin, currently 1.75%, which equaled an effective interest rate of 5.49% as of March 31, 2010. This swap contract matures in February 2013.

HEP designated this interest rate swap as a cash flow hedge. Based on its assessment of effectiveness using the change in variable cash flows method, HEP determined that this interest rate swap is effective in offsetting the variability in interest payments on the \$171 million variable rate debt resulting from changes in LIBOR. Under hedge accounting, HEP adjusts the cash flow hedge on a quarterly basis to its fair value with the offsetting fair value adjustment to accumulated other comprehensive income. Also on a quarterly basis, HEP measures hedge effectiveness by comparing the present value of the cumulative change in the expected future interest to be paid or received on the variable leg of the swap against the expected future interest payments on the \$171 million variable rate debt. Any ineffectiveness is reclassified from accumulated other comprehensive income to interest expense. As of March 31, 2010, HEP had no ineffectiveness on its cash flow hedge.





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Additional information on HEP's interest rate swap at March 31, 2010 is as follows:

| Interest Rate Swap               | Balance Sheet |                             | Location of Offsetting |                                      | Offsetting |
|----------------------------------|---------------|-----------------------------|------------------------|--------------------------------------|------------|
|                                  | Location      | Fair Value                  | Balance                | Amount                               |            |
| (In thousands)                   |               |                             |                        |                                      |            |
| <b>Liability</b>                 |               |                             |                        |                                      |            |
| Cash flow hedge LIBOR based debt | \$171 million | Other long-term liabilities | \$ 10,502              | Accumulated other comprehensive loss | \$ 10,502  |

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

For the three months ended March 31, 2010 and 2009, HEP recognized \$1.5 million and \$0.2 million, respectively, in interest expense attributable to fair value adjustments to these interest rate swaps.

HEP has a deferred hedge premium that relates to the application of hedge accounting to the Variable Rate Swap prior to its hedge de-designation in 2008. This deferred hedge premium having a balance of \$1.7 million at March 31, 2010, is being amortized as a reduction to interest expense over the remaining term of the HEP 6.25% Senior Notes.

HEP reviews publicly available information on its counterparties in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the interest rate swap contracts. These counterparties consist of large financial institutions. HEP has not experienced, nor does it expect to experience, any difficulty in the counterparties honoring their respective commitments.

The market risk inherent in our fixed-rate debt and positions is the potential change arising from increases or decreases in interest rates as discussed below.

At March 31, 2010, outstanding principal under the Holly 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes was \$300 million, \$185 million and \$150 million, respectively. For these fixed rate notes, changes in interest rates will generally affect fair value of the debt, but not our earnings or cash flows. At March 31, 2010, the estimated fair values of the Holly 9.875% Senior Notes, HEP 6.25% Senior Notes and HEP 8.25% Senior Notes were \$310.5 million, \$175.8 million and \$151.5 million, respectively. We estimate that a hypothetical 10% change in the yield-to-maturity rates applicable to these notes would result in a total fair value change of approximately \$22 million.

For the variable rate HEP Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At March 31, 2010, borrowings outstanding under the HEP Credit Agreement were \$171 million. By means of its cash flow hedge, HEP has effectively converted the variable rate on \$171 million of outstanding principal to a fixed rate of 5.49%.

At March 31, 2010, cash and cash equivalents included investments in investment grade, highly liquid investments with maturities of three months or less at the time of purchase and hence the interest rate market risk implicit in these cash investments is low. Due to the short-term nature of our cash and cash equivalents, a hypothetical 10% increase in interest rates would not have a material effect on the fair market value of our portfolio. Since we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected by the effect of a sudden change in market interest rates on our investment portfolio.

Our operations are subject to normal hazards of operations, including fire, explosion and weather-related perils. We maintain various insurance coverages, including business interruption insurance, subject to certain deductibles. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

We have a risk management oversight committee that is made up of members from our senior management. This committee oversees our risk enterprise program, monitors our risk environment and provides direction for activities to mitigate identified risks that may adversely affect the achievement of our goals.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

See Risk Management under Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles*****Reconciliations of earnings before interest, taxes, depreciation and amortization ( EBITDA ) to amounts reported under generally accepted accounting principles in financial statements.***

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

Set forth below is our calculation of EBITDA from continuing operations.

|   | <b>Three Months Ended</b> |               |
|---|---------------------------|---------------|
|   | <b>March 31,</b>          |               |
|   | <b>2010</b>               | <b>2009</b>   |
|   | (In thousands)            |               |
| Income (loss) from continuing operations                              | \$ (23,254)               | \$ 22,074     |
| Subtract noncontrolling interest in income from continuing operations | (4,840)                   | (521)         |
| Add (subtract) income tax provision (benefit)                         | (16,672)                  | 11,849        |
| Add interest expense  | 17,722                    | 6,239         |
| Subtract interest income  | (59)                      | (2,196)       |
| Add depreciation and amortization                                     | 27,757                    | 20,081        |
| <br>EBITDA from continuing operations                                 | <br>\$ 654                | <br>\$ 57,526 |

***Reconciliations of refinery operating information (non-GAAP performance measures) to amounts reported under generally accepted accounting principles in financial statements.***

Refinery gross margin and net operating margin are non-GAAP performance measures that are used by our management and others to compare our refining performance to that of other companies in our industry. We believe these margin measures are helpful to investors in evaluating our refining performance on a relative and absolute basis. We calculate refinery gross margin and net operating margin using net sales, cost of products and operating expenses, in each case averaged per produced barrel sold. These two margins do not include the effect of depreciation and amortization. Each of these component performance measures can be reconciled directly to our Consolidated Statements of Income.

Other companies in our industry may not calculate these performance measures in the same manner.

**Table of Contents***Refinery Gross Margin*

Refinery gross margin per barrel is the difference between average net sales price and average cost of products per barrel of produced refined products. Refinery gross margin for each of our refineries and for our three refineries on a consolidated basis is calculated as shown below.

|                              | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------|---|-------------|
|                              | <b>2010</b>                             | <b>2009</b> |
| Average per produced barrel: |   |             |
| <i>Navajo Refinery</i>       |   |             |
| Net sales                    | \$ 88.06                                | \$ 57.37    |
| Less cost of products        | 82.96                                   | 44.92       |
| Refinery gross margin        | \$ 5.10                                 | \$ 12.45    |
| <i>Woods Cross Refinery</i>  |   |             |
| Net sales                    | \$ 89.52                                | \$ 50.31    |
| Less cost of products        | 74.72                                   | 39.57       |
| Refinery gross margin        | \$ 14.80                                | \$ 10.74    |
| <i>Tulsa Refinery</i>        |   |             |
| Net sales                    | \$ 86.22                                | \$          |
| Less cost of products        | 82.89                                   |             |
| Refinery gross margin        | \$ 3.33                                 | \$          |
| <i>Consolidated</i>          |   |             |
| Net sales                    | \$ 87.40                                | \$ 55.23    |
| Less cost of products        | 81.84                                   | 43.30       |
| Refinery gross margin        | \$ 5.56                                 | \$ 11.93    |

*Net Operating Margin*

Net operating margin per barrel is the difference between refinery gross margin and refinery operating expenses per barrel of produced refined products. Net operating margin for each of our refineries and for our three refineries on a consolidated basis is calculated as shown below.

|                              | <b>Three Months Ended<br/>March 31,</b> |             |
|------------------------------|---|-------------|
|                              | <b>2010</b>                             | <b>2009</b> |
| Average per produced barrel: |   |             |
| <i>Navajo Refinery</i>       |   |             |
| Refinery gross margin        | \$ 5.10                                 | \$ 12.45    |

|  |    |        |    |       |
|--|----|--------|----|-------|
| Less refinery operating expenses       |    | 5.18   |    | 6.17  |
| Net operating margin                   | \$ | (0.08) | \$ | 6.28  |
| <br><b><i>Woods Cross Refinery</i></b> |    |        |    |       |
| Refinery gross margin                  | \$ | 14.80  | \$ | 10.74 |
| Less refinery operating expenses       |    | 6.20   |    | 6.92  |
| Net operating margin                   | \$ | 8.60   | \$ | 3.82  |
| <br><b><i>Tulsa Refinery</i></b>       |    |        |    |       |
| Refinery gross margin                  | \$ | 3.33   | \$ |       |
| Less refinery operating expenses       |    | 5.91   |    |       |
| Net operating margin                   | \$ | (2.58) | \$ |       |
| <br><b><i>Consolidated</i></b>         |    |        |    |       |
| Refinery gross margin                  | \$ | 5.56   | \$ | 11.93 |
| Less refinery operating expenses       |    | 5.65   |    | 6.40  |
| Net operating margin                   | \$ | (0.09) | \$ | 5.53  |

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Below are reconciliations to our Consolidated Statements of Income for (i) net sales, cost of products and operating expenses, in each case averaged per produced barrel sold, and (ii) net operating margin and refinery gross margin. Due to rounding of reported numbers, some amounts may not calculate exactly.

**Reconciliations of refined product sales from produced products sold to total sales and other revenues**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| <b><i>Navajo Refinery</i></b>  |   |             |
| Average sales price per produced barrel sold   | \$ 88.06                                | \$ 57.37    |
| Times sales of produced refined products sold (BPD)  | 86,930                                  | 62,147      |
| Times number of days in period   | 90                                      | 90          |
| Refined product sales from produced products sold  | \$ 688,955                              | \$ 320,884  |
| <b><i>Woods Cross Refinery</i></b>   |   |             |
| Average sales price per produced barrel sold   | \$ 89.52                                | \$ 50.31    |
| Times sales of produced refined products sold (BPD)  | 28,170                                  | 27,024      |
| Times number of days in period   | 90                                      | 90          |
| Refined product sales from produced products sold  | \$ 226,960                              | \$ 122,362  |
| <b><i>Tulsa Refinery</i></b>   |   |             |
| Average sales price per produced barrel sold   | \$ 86.22                                | \$          |
| Times sales of produced refined products sold (BPD)  | 98,760                                  |             |
| Times number of days in period   | 90                                      |             |
| Refined product sales from produced products sold  | \$ 766,358                              | \$          |
| Sum of refined products sales from produced products sold from our three refineries<br>(4) | \$ 1,682,273                            | \$ 443,246  |
| Add refined product sales from purchased products and rounding (1)                         | 41,506                                  | 53,646      |
| Total refined products sales   | 1,723,779                               | 496,892     |
| Add direct sales of excess crude oil (2)   | 134,862                                 | 121,255     |
| Add other refining segment revenue (3)   | 8,533                                   | 18,763      |
| Total refining segment revenue   | 1,867,174                               | 636,910     |
| Add HEP segment sales and other revenues   | 40,689                                  | 29,332      |
| Add corporate and other revenues   | 66                                      | 99          |
| Subtract consolidations and eliminations   | (33,639)                                | (18,311)    |
| Sales and other revenues   | \$ 1,874,290                            | \$ 648,030  |

(1)

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

- (2) *We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold. Additionally, we enter into buy/sell exchanges of crude oil with certain parties to facilitate the delivery of quantities to certain locations that are netted at carryover cost.*

(3)

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

*(4) The above calculations of refined product sales from produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.*

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2010</b>                             | <b>2009</b> |
| Average sales price per produced barrel sold        | \$ 87.40                                | \$ 55.23    |
| Times sales of produced refined products sold (BPD) | 213,860                                 | 89,171      |
| Times number of days in period                      | 90                                      | 90          |
| Refined product sales from produced products sold   | \$ 1,682,273                            | \$ 443,246  |



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

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2010</b>                             | <b>2009</b> |
| <b><i>Navajo Refinery</i></b>   |   |             |
| Average cost of products per produced barrel sold   | \$ 82.96                                | \$ 44.92    |
| Times sales of produced refined products sold (BPD)   | 86,930                                  | 62,147      |
| Times number of days in period  | 90                                      | 90          |
| Cost of products for produced products sold   | \$ 649,054                              | \$ 251,248  |
| <b><i>Woods Cross Refinery</i></b>  |   |             |
| Average cost of products per produced barrel sold   | \$ 74.72                                | \$ 39.57    |
| Times sales of produced refined products sold (BPD)   | 28,170                                  | 27,024      |
| Times number of days in period  | 90                                      | 90          |
| Cost of products for produced products sold   | \$ 189,438                              | \$ 96,241   |
| <b><i>Tulsa Refinery</i></b>  |   |             |
| Average cost of products per produced barrel sold   | \$ 82.89                                | \$          |
| Times sales of produced refined products sold (BPD)   | 98,760                                  |             |
| Times number of days in period  | 90                                      |             |
| Cost of products for produced products sold   | \$ 736,759                              | \$          |
| Sum of cost of products for produced products sold from our three refineries <sup>(4)</sup> | \$ 1,575,251                            | \$ 347,489  |
| Add refined product costs from purchased products sold and rounding <sup>(1)</sup>          | 41,464                                  | 57,760      |
| Total refined cost of products sold   | 1,616,715                               | 405,249     |
| Add crude oil cost of direct sales of excess crude oil <sup>(2)</sup>                       | 133,667                                 | 120,682     |
| Add other refining segment cost of products sold <sup>(3)</sup>                             | 6,051                                   | 3,908       |
| Total refining segment cost of products sold  | 1,756,433                               | 529,839     |
| Subtract consolidations and eliminations  | (32,569)                                | (18,185)    |
| Costs of products sold (exclusive of depreciation and amortization)                         | \$ 1,723,864                            | \$ 511,654  |

(1) *We purchase finished products when opportunities arise that provide a profit on the sale of*

*such products,  
or to meet  
delivery  
commitments.*

- (2) *We purchase  
crude oil that at  
times exceeds  
the supply needs  
of our  
refineries.  
Quantities in  
excess of our  
needs are sold  
at market prices  
to purchasers of  
crude oil that  
are recorded on  
a gross basis  
with the sales  
price recorded  
as revenues and  
the  
corresponding  
acquisition cost  
as inventory and  
then upon sale  
as cost of  
products sold.  
Additionally, we  
enter into  
buy/sell  
exchanges of  
crude oil with  
certain parties  
to facilitate the  
delivery of  
quantities to  
certain  
locations that  
are netted at  
carryover cost.*
- (3) *Other refining  
segment revenue  
includes  
revenues  
associated with  
Holly Asphalt  
and revenue  
derived from*

*feedstock and sulfur credit sales.*

*(4) The above calculations of refined product sales from produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.*

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2010</b>                             | <b>2009</b> |
| Average cost of products per produced barrel sold   | \$ 81.84                                | \$ 43.30    |
| Times sales of produced refined products sold (BPD) | 213,860                                 | 89,171      |
| Times number of days in period                      | 90                                      | 90          |
| Cost of products for produced products sold         | \$ 1,575,251                            | \$ 347,489  |

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| <b><i>Navajo Refinery</i></b>  |   |             |
| Average refinery operating expenses per produced barrel sold   | \$ 5.18                                 | \$ 6.17     |
| Times sales of produced refined products sold (BPD)  | 86,930                                  | 62,147      |
| Times number of days in period   | 90                                      | 90          |
| Refinery operating expenses for produced products sold   | \$ 40,527                               | \$ 34,510   |
| <b><i>Woods Cross Refinery</i></b>   |   |             |
| Average refinery operating expenses per produced barrel sold   | \$ 6.20                                 | \$ 6.92     |
| Times sales of produced refined products sold (BPD)  | 28,170                                  | 27,024      |
| Times number of days in period   | 90                                      | 90          |
| Refinery operating expenses for produced products sold   | \$ 15,719                               | \$ 16,831   |
| <b><i>Tulsa Refinery</i></b>   |   |             |
| Average refinery operating expenses per produced barrel sold   | \$ 5.91                                 | \$          |
| Times sales of produced refined products sold (BPD)  | 98,760                                  |             |
| Times number of days in period   | 90                                      |             |
| Refinery operating expenses for produced products sold   | \$ 52,530                               | \$          |
| Sum of refinery operating expenses per produced products sold from our three refineries <sup>(2)</sup> | \$ 108,776                              | \$ 51,341   |
| Add other refining segment operating expenses and rounding <sup>(1)</sup>                              | 5,818                                   | 5,074       |
| Total refining segment operating expenses  | 114,594                                 | 56,415      |
| Add HEP segment operating expenses   | 13,060                                  | 10,342      |
| Add corporate and other costs  | 6                                       | 19          |
| Subtract consolidations and eliminations   | (116)                                   | (28)        |
| Operating expenses (exclusive of depreciation and amortization)  | \$ 127,544                              | \$ 66,748   |

*(1) Other refining segment operating expenses include the marketing costs associated with our refining*

*segment and the operating expenses of Holly Asphalt.*

(2) *The above calculations of refinery operating expenses from produced products sold can also be computed on a consolidated basis. These amounts may not calculate exactly due to rounding of reported numbers.*

|  | <b>Three Months Ended<br/>March 31,</b> |               |
|--|---|---------------|
|  | <b>2010</b>                             | <b>2009</b>   |
| Average refinery operating expenses per produced barrel sold | \$ 5.65                                 | \$ 6.40       |
| Times sales of produced refined products sold (BPD)          | 213,860                                 | 89,171        |
| Times number of days in period                               | 90                                      | 90            |
| <br>Refinery operating expenses for produced products sold   | <br>\$ 108,776                          | <br>\$ 51,341 |

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| <b><i>Navajo Refinery</i></b>  |   |             |
| Net operating margin per barrel  | \$ (0.08)                               | \$ 6.28     |
| Add average refinery operating expenses per produced barrel                                | 5.18                                    | 6.17        |
| Refinery gross margin per barrel   | 5.10                                    | 12.45       |
| Add average cost of products per produced barrel sold                                      | 82.96                                   | 44.92       |
| Average sales price per produced barrel sold   | \$ 88.06                                | \$ 57.37    |
| Times sales of produced refined products sold (BPD)  | 86,930                                  | 62,147      |
| Times number of days in period   | 90                                      | 90          |
| Refined products sales from produced products sold   | \$ 688,955                              | \$ 320,884  |
| <b><i>Woods Cross Refinery</i></b>   |   |             |
| Net operating margin per barrel  | \$ 8.60                                 | \$ 3.82     |
| Add average refinery operating expenses per produced barrel                                | 6.20                                    | 6.92        |
| Refinery gross margin per barrel   | 14.80                                   | 10.74       |
| Add average cost of products per produced barrel sold                                      | 74.72                                   | 39.57       |
| Average sales price per produced barrel sold   | \$ 89.52                                | \$ 50.31    |
| Times sales of produced refined products sold (BPD)  | 28,170                                  | 27,024      |
| Times number of days in period   | 90                                      | 90          |
| Refined products sales from produced products sold   | \$ 226,960                              | \$ 122,362  |
| <b><i>Tulsa Refinery</i></b>   |   |             |
| Net operating margin per barrel  | \$ (2.58)                               | \$          |
| Add average refinery operating expenses per produced barrel                                | 5.91                                    |             |
| Refinery gross margin per barrel   | 3.33                                    |             |
| Add average cost of products per produced barrel sold                                      | 82.89                                   |             |
| Average sales price per produced barrel sold   | \$ 86.22                                | \$          |
| Times sales of produced refined products sold (BPD)  | 98,760                                  |             |
| Times number of days in period   | 90                                      |             |
| Refined products sales from produced products sold   | \$ 766,358                              | \$          |
| Sum of refined products sales from produced products sold from our three refineries<br>(4) | \$ 1,682,273                            | \$ 443,246  |

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|   |              |            |
|---|--------------|------------|
| Add refined product sales from purchased products and rounding <sup>(1)</sup> | 41,506       | 53,646     |
| Total refined products sales  | 1,723,779    | 496,892    |
| Add direct sales of excess crude oil <sup>(2)</sup>                           | 134,862      | 121,255    |
| Add other refining segment revenue <sup>(3)</sup>                             | 8,533        | 18,763     |
| Total refining segment revenue  | 1,867,174    | 636,910    |
| Add HEP segment sales and other revenues                                      | 40,689       | 29,332     |
| Add corporate and other revenues  | 66           | 99         |
| Subtract consolidations and eliminations                                      | (33,639)     | (18,311)   |
| Sales and other revenues  | \$ 1,874,290 | \$ 648,030 |

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

(2) *We purchase crude oil that at times exceeds the supply needs of our refineries. Quantities in excess of our needs are sold at market prices to purchasers of crude oil that are recorded on a gross basis with the sales price recorded as revenues and the corresponding acquisition cost as inventory and then upon sale as cost of products sold. Additionally, we*

*enter into  
buy/sell  
exchanges of  
crude oil with  
certain parties  
to facilitate the  
delivery of  
quantities to  
certain  
locations that  
are netted at  
carryover cost.*

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

*(4) The above  
calculations of  
refined product  
sales from  
produced  
products sold  
can also be  
computed on a  
consolidated  
basis. These  
amounts may  
not calculate  
exactly due to  
rounding of  
reported  
numbers.*



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|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2010</b>                             | <b>2009</b> |
| Net operating margin per barrel                             | \$ (0.09)                               | \$ 5.53     |
| Add average refinery operating expenses per produced barrel | 5.65                                    | 6.40        |
| Refinery gross margin per barrel                            | 5.56                                    | 11.93       |
| Add average cost of products per produced barrel sold       | 81.84                                   | 43.30       |
| Average sales price per produced barrel sold                | \$ 87.40                                | \$ 55.23    |
| Times sales of produced refined products sold (BPD)         | 213,860                                 | 89,171      |
| Times number of days in period                              | 90                                      | 90          |
| Refined product sales from produced products sold           | \$ 1,682,273                            | \$ 443,246  |

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**Item 4. Controls and Procedures**

**Evaluation of disclosure controls and procedures.** Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2010.

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

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

In May 2007, the United States Court of Appeals for the District of Columbia Circuit ( Court of Appeals ) issued its decision on petitions for review, brought by us and other parties, concerning rulings by the Federal Energy Regulatory Commission ( FERC ) in proceedings brought by us and other parties against SFPP, L.P. ( SFPP ). These proceedings relate to tariffs of common carrier pipelines, which are owned and operated by SFPP, for shipments of refined products from El Paso, Texas to Tucson and Phoenix, Arizona and from points in California to points in Arizona. We are one of several refiners that regularly utilize the SFPP pipeline to ship refined products from El Paso, Texas to Tucson and Phoenix, Arizona on SFPP's East Line. The Court of Appeals in its May 2007 decision approved a FERC position, which is adverse to us, on the treatment of income taxes in the calculation of allowable rates for pipelines operated by partnerships and ruled in our favor on an issue relating to our rights to reparations when it is determined that certain tariffs we paid to SFPP in the past were too high. The income tax issue and the other remaining issues relating to SFPP's obligations to shippers are being handled by the FERC in a single compliance proceeding covering the period from 1992 through May 2006. We currently estimate that, as a result of the May 2007 Court of Appeals decision and prior rulings by the Court of Appeals and the FERC in these proceedings, a net amount will be due from SFPP to us for the period January 1992 through May 2006 in addition to the \$15.3 million we received in 2003 from SFPP as reparations for the period from 1992 through July 2000. On April 16, 2010, a settlement among us, SFPP, and other shippers was filed with FERC for its approval. If approved the settlement would finally resolve the amount of additional payments SFPP owes us for the period January 2002 through May 2006. The proposed settlement remains subject to final appeal by FERC.

**b. Other Settlements**

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

**c. The Latest Rate Proceeding**

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

**NMED NOV**

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

Agreement and Stipulated Final Order entered on March 31, 2010. The settlement requires Navajo to pay a civil penalty of \$0.3 million and take specified corrective actions. Most of the required corrective actions have already been completed.

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**Woods Cross Construction Dispute**

Our Holly Refining & Marketing Company Woods Cross and Woods Cross Refining Company, LLC subsidiaries were named, along with other parties, as defendants in a lawsuit filed on April 22, 2009 by Brahma Group, Inc. in the State District Court in Davis County, Utah, involving a construction dispute over the installation of an oil gas hydrocracker at the Woods Cross, Utah refinery. The lawsuit alleges that the defendants caused delays, additional work and increased costs in the installation of the oil gas hydrocracker for which the plaintiff was not paid. The claims made against our subsidiaries are for lien foreclosure, failure to obtain a payment bond, and implied contract. The lawsuit seeks compensatory damages in the approximate amount of \$12 million, costs, attorney's fees allowed by law, and interest allowed by law. A lien has also been filed in the county records against the refinery property in that amount. Our subsidiaries have tendered defense of the complaint to the general contractor, Benham Constructors. Our subsidiaries have answered the complaint and denied any liability. The plaintiff and the general contractor have arbitrated their dispute and an award in that arbitration has been issued. The claims against our subsidiaries have been stayed and it is expected they will be dismissed when the arbitration award is satisfied.

**Cut Bank Hill Environmental Claims**

Prior to the sale by Holly Corporation of the Montana Refining Company ( MRC ) assets in 2006, MRC, along with other companies was the subject of several environmental claims at the Cut Bank Hill site in Montana. These claims include: (1) a U.S. Environmental Protection Agency administrative order requiring MRC and other companies to undertake cleanup actions; (2) a U.S. Coast Guard claim against MRC and other companies for response costs of \$298,500 in connection with its cleanup efforts at the Cut Bank Hill site; and (3) a unilateral order by the Montana Department of Environmental Quality ( MDEQ ) directing MRC and other companies to complete a remedial investigation and a request by the MDEQ that MRC and other companies pay approximately \$150,000 to reimburse the State's costs for remedial actions. MRC has denied responsibility for the requested EPA and the MDEQ cleanup actions and the MDEQ and Coast Guard response costs.

**OSHA Inspection Woods Cross**

In June 2007, the Federal Occupational Safety and Health Administration ( OSHA ) announced a national emphasis program ( NEP ) for inspecting approximately 80 refineries within its jurisdiction. As a part of the NEP, OSHA encouraged certain State Plan States, such as Utah, to initiate their own version of the NEP. Beginning on May 1, 2008, the Utah Labor Commission, Occupational Safety and Health Division ( UOSH ) began an inspection of the refinery, which is operated by Holly Refining and Marketing Company Woods Cross and is located in Woods Cross, Utah. The inspection ended on September 18 and on October 23, 2008. UOSH issued one citation alleging 33 violations of various safety standards including the Process Safety Management Standard and proposing a penalty of \$91,750. We filed a notice of contest with the Adjudicative Division, Utah Labor Commission, in Salt Lake City, Utah. On February 18, 2009, the initial status conference for this matter was held and a scheduling order was issued. Our answer was filed and served on March 4, 2009 and discovery ended on January 6, 2010. The hearing date has been set for July 6, 2010. While we intend to vigorously defend this citation and believe that we have strong defenses on the merits, settlement discussions have begun and are evolving in a positive direction.

**Table of Contents****OSHA Inspection Tulsa Refinery east facility**

In June 2007, OSHA announced a NEP for inspecting approximately 80 refineries within its jurisdiction. As part of the NEP, OSHA conducted an inspection of Sinclair Tulsa Refining Company's (Sinclair Tulsa) refinery in Tulsa, Oklahoma (our Tulsa Refinery east facility) from February 4, 2009 through August 3, 2009. On August 4, 2009, OSHA issued two citations to Sinclair Tulsa, alleging 51 serious violations and 1 willful violation of various safety standards including the Process Safety Management Standard (PSM) and the General Duty Clause. OSHA proposed penalties totaling \$240,750. Sinclair filed a notice of contest, challenging the citations. Because the proposed penalties exceed \$100,000, the matter was referred for mandatory settlement before the Occupational Safety and Health Review Commission (OSHRC). Prior to the mandatory settlement conference which had been scheduled for March 16-17, 2010 in Dallas, Texas, Sinclair Tulsa and OSHA notified the OSHRC that a settlement had been reached in principle and the OSHRC gave them until May 12, 2010 to submit the settlement agreement in writing for its review and approval.

Our subsidiary, Holly Refining & Marketing Tulsa LLC (HRM-Tulsa), entered into an Asset Sale & Purchase Agreement (the Agreement) with Sinclair Tulsa dated October 19, 2009 to acquire the Tulsa Refinery east facility, and the sale closed on December 1, 2009. HRM-Tulsa intervened in the case against Sinclair Tulsa pending before the Occupational Safety and Health Review Commission shortly after the sale closed. Under the terms of the Agreement, Sinclair retains responsibility for defending the OSHA citations and paying any penalties, and HRM-Tulsa has the discretion to select the means and methods of improving the PSM program. HRM-Tulsa is in the initial stages of evaluating the feasibility and range of options to make such PSM program improvements at the Tulsa Refinery east facility.

**Discharge Permit Appeal Tulsa Refinery west facility**

Our subsidiary, Holly Refining & Marketing Tulsa LLC (HRM Tulsa) is party to parallel Oklahoma administrative and state district court proceedings involving a challenge, originally filed by Sunoco, Inc. (R&M), to the terms of the Oklahoma Department of Environmental Quality (ODEQ) permit that governs the discharge of industrial wastewater from what is now our Tulsa Refinery west facility. After our acquisition of the Tulsa Refinery west facility, we were substituted for Sunoco in both proceedings. On February 1, 2010, we entered into a settlement agreement with the Oklahoma Department of Environmental Quality. The agreement provided, among other things, for the amendment of the permit to require that the Tulsa Refinery west facility make certain modifications in its system for handling storm flows. These modifications are required to be complete within three years of the issuance of the revised permit. Both the administrative and the state district court proceedings have been stayed to permit this settlement agreement to be effectuated. Once the agreed-upon changes become effective, both proceedings will be dismissed. Preliminary engineering is underway to develop a final scope and capital estimate, and any process modification is subject to regulatory review and approval. Accordingly, it is not possible to estimate the costs of compliance with the new permit provision at this time.

**Navajo Tank Fire**

On March 2, 2010, a tank caught fire while under construction. At the time of the incident, four individuals were working on top of the tank. These individuals were all employees of a third-party contractor who was placing insulation on the tank. Two individuals sustained injuries and two individuals died as a result of the incident. Lawsuits have been filed by the two survivors and by the estate of one of the deceased workers. It is anticipated that a lawsuit will be filed by the estate of the other deceased worker. At the date of this report, it is not possible to predict the likely outcome of this litigation. This matter is being reported due to the serious nature of the injuries. At this time, the total cost to the Company for these cases is not expected to be material.

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**Unclaimed Property Audit**

A multi-state audit of our unclaimed property compliance and reporting is being conducted by Kelmar Associates, LLC on behalf of ten states. We expect this audit process to take several years to be resolved due to the lengthy period covered by the audit (1981 – 2004). It is not yet possible to accurately estimate the amount, if any, that is owed to each of the states since only preliminary investigation has occurred to date.

**Other**

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

**Item 5. Other Information**

(a) On March 12, 2010, the Compensation Committee of the Board of Directors of the Company authorized awards of executive restricted stock with performance vesting features to Matthew P. Clifton and David L. Lamp under the Company's Long-Term Incentive Compensation Plan (the Plan). Mr. Clifton's award is comprised of 27,512 restricted shares and Mr. Lamp's award is comprised of 15,256 restricted shares.

In connection with such awards, the Compensation Committee also adopted new performance metrics and a new form award agreement pursuant to which it may grant executive restricted stock with performance vesting features under the Plan. The following is intended to provide a brief description of the new form award agreement and the 2010 awards to Messrs. Clifton and Lamp, but is not a complete description and is qualified in its entirety by reference to the full text of the agreements. The awards to Messrs. Clifton and Lamp described above are subject to the terms and conditions of the new form award agreement, which is attached hereto as Exhibit [10.1]. The award agreements evidencing the 2010 awards to Messrs. Clifton and Lamp are attached hereto as Exhibits [10.2] and [10.3], respectively.

The form award agreement provides that the recipient of the restricted shares is entitled to all rights as a stockholder of the shares, including the right to receive dividends thereon, except that the recipient is not entitled to receive any such dividends until the underlying restricted shares have vested. Pursuant to the form award agreement, the restricted shares are subject to both time and performance based vesting conditions, and both conditions must be satisfied in order for the restricted shares to vest. The time vesting conditions are satisfied if the recipient remains employed with the Company through the date(s) designated for the award. In the case of the awards to Messrs. Clifton and Lamp described above, one-third of the restricted shares awarded will vest on each of January 1, 2011, January 1, 2012 and January 1, 2013, provided the executives remain employed through those dates. The performance vesting conditions are satisfied if, by December 31 of the third calendar year following the calendar year in which the award is granted, for any four consecutive quarters during the four year period ending on that date, either (i) the sum of the Company's net income per diluted share reaches a designated target level, or (ii) the Company ranks at or above the median of a designated peer group of companies with respect to at least two out of four performance measures. The performance measures are earnings per share growth, net profit margin, return on assets and return on investment, and the Company must rank at or above median on the same two performance measures in each quarter in order for the performance standard to be satisfied in this manner. In the case of the awards to Messrs. Clifton and Lamp, the net income target is \$0.30 over four quarters. If a recipient's employment is terminated due to death or disability, the recipient will vest in a pro rata amount of the restricted shares, based on the length of the recipient's service with the Company prior to the employment termination date. If the recipient's employment is terminated within 60 days prior to or at any time after a change in control by the Company without cause or by the recipient due to an adverse change in his or her employment conditions, then all restricted shares granted under the award will remain eligible to vest if the performance standard is actually attained.

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**Item 6. Exhibits**

(a) Exhibits

- 4.1 Indenture dated March 10, 2010, among Holly Energy Partners, L.P., Holly Energy Finance Corp. and each of the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Holly Energy Partners, L.P.'s Current Report on Form 8-K filed with the SEC on March 11, 2010).
- 10.1 Pipeline Systems Operating Agreement, dated as of February 8, 2010, by and among Navajo Refining Company, L.L.C., Lea Refining Company, Woods Cross Refining Company, L.L.C., Holly Refining & Marketing - Tulsa LLC. and Holly Energy Partners-Operating, L.P. (incorporated by reference to Exhibit 10.1 of Holly Energy Partners, L.P.'s Current Report on Form 8-K filed with the SEC on February 9, 2010).
- 10.2 First Amended and Restated Pipelines, Tankage and Loading Rack Throughput Agreement (Tulsa East), dated as of March 31, 2010, by and among Holly Refining & Marketing-Tulsa, LLC, HEP Tulsa LLC and Holly Energy Storage-Tulsa LLC (incorporated by reference to Exhibit 10.1 of Holly Corporation's Current Report on Form 8-K filed with the SEC on April 6, 2010).
- 10.3 Loading Rack Throughput Agreement (Lovington), dated as of March 31, 2010, by and between Navajo Refining Company, L.L.C. and Holly Energy Storage-Lovington LLC (incorporated by reference to Exhibit 10.2 of Holly Corporation's Current Report on Form 8-K filed with the SEC on April 6, 2010).
- 10.4 Fourth Amended and Restated Omnibus Agreement, dated as of March 31, 2010, by and among Holly Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries (incorporated by reference to Exhibit 10.3 of Holly Corporation's Current Report on Form 8-K filed with the SEC on April 6, 2010).
- 10.5 First Amended and Restated Lease and Access Agreement (East Tulsa), dated as of March 31, 2010, by and among Holly Refining & Marketing-Tulsa, LLC, HEP Tulsa LLC and Holly Energy Storage-Tulsa LLC (incorporated by reference to Exhibit 10.4 of Holly Corporation's Current Report on Form 8-K filed with the SEC on April 6, 2010).
- 10.6 First Amendment to Pipeline Systems Operating Agreement, dated as of March 31, 2010, by and among Navajo Refining Company, L.L.C, Lea Refining Company, Woods Cross Refining Company, L.L.C, Holly Refining & Marketing-Tulsa, LLC and Holly Energy Partners-Operating, L.P. (incorporated by reference to Exhibit 10.5 of Holly Corporation's Current Report on Form 8-K filed with the SEC on April 6, 2010).
- 10.7+\* Form of Executive Restricted Stock Agreement [time and performance based vesting].
- 10.8+\* Executive Restricted Stock Agreement, dated March 12, 2010, by and between Holly Corporation and Matthew P. Clifton.
- 10.9+\* Executive Restricted Stock Agreement, dated March 12, 2010, by and between Holly Corporation and David L. Lamp.
- 10.10+\* Form of Employee Restricted Stock Agreement [time based vesting].
- 31.1+ Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.



31.2+ Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

32.1++ Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

32.2++ Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

+ Filed herewith.

++ Furnished  
herewith.

\* Constitutes  
management  
contracts or  
compensatory  
plans or  
arrangements.

**Table of Contents**

**SIGNATURES**

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

**HOLLY CORPORATION**

(Registrant)

Date: May 7, 2010

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

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

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