

HollyFrontier Corp  
Form 10-Q  
August 08, 2013

---

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 June 30, 2013  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-3876

---

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

---

Delaware (State or other jurisdiction of incorporation or organization)	75-1056913  (I.R.S. Employer Identification No.)
---	--

2828 N. Harwood, Suite 1300 Dallas, Texas (Address of principal executive offices) (214) 871-3555 (Registrant's telephone number, including area code)	75201  (Zip Code)
--	-------------------------

---

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

---

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

Yes  No

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

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

Edgar Filing: HollyFrontier Corp - Form 10-Q

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

199,857,034 shares of Common Stock, par value \$.01 per share, were outstanding on July 31, 2013.

---

---

Table of Content

HOLLYFRONTIER CORPORATION  
INDEX

	Page
<u>Forward-Looking Statements</u>	<u>3</u>
 <u>PART I. FINANCIAL INFORMATION</u>	
<u>Definitions</u>	<u>4</u>
 <u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets</u> <u>June 30, 2013 (Unaudited) and December 31, 2012</u>	<u>6</u>
<u>Consolidated Statements of Income (Unaudited)</u> <u>Three and Six Months Ended June 30, 2013 and 2012</u>	<u>7</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three and Six Months Ended June 30, 2013 and 2012</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>Six Months Ended June 30, 2013 and 2012</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>10</u>
 <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	 <u>36</u>
 <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	 <u>51</u>
 <u>Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles</u>	 <u>51</u>
 <u>Item 4. Controls and Procedures</u>	 <u>54</u>
 <u>PART II. OTHER INFORMATION</u>	
 <u>Item 1. Legal Proceedings</u>	 <u>55</u>
 <u>Item 1A. Risk Factors</u>	 <u>55</u>
 <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	 <u>56</u>
 <u>Item 6. Exhibits</u>	 <u>56</u>
 <u>Signatures</u>	 <u>57</u>
 <u>Index to Exhibits</u>	 <u>58</u>



Table of Content

FORWARD-LOOKING STATEMENTS

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

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

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

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material risk factors and other cautionary statements under the heading “Risk Factors” included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 and in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and in conjunction with the discussion in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Liquidity and Capital Resources.” All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements

attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Content

PART I. FINANCIAL INFORMATION

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“LPG” means liquid petroleum gases.

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

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

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



Table of Content

“MMBTU” means one million British thermal units.

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

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

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

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

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

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

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

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

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

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

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

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

Table of Content

## Item 1. Financial Statements

HOLLYFRONTIER CORPORATION  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (HEP: \$8,716 and \$5,237, respectively)	\$1,349,420	\$1,757,699
Marketable securities	632,715	630,586
Accounts receivable: Product and transportation (HEP: \$36,121 and \$38,097, respectively)	701,724	587,728
Crude oil resales	69,081	46,502
	770,805	634,230
Inventories: Crude oil and refined products	1,472,071	1,238,678
Materials, supplies and other (HEP: \$1,783 and \$1,259, respectively)	78,372	80,954
	1,550,443	1,319,632
Income taxes receivable	62,431	74,957
Prepayments and other (HEP: \$2,531 and \$2,360, respectively)	82,338	53,161
Total current assets	4,448,152	4,470,265
Properties, plants and equipment, at cost (HEP: \$1,168,786 and \$1,155,710, respectively)	4,101,398	3,943,114
Less accumulated depreciation (HEP: \$(165,829) and \$(141,154), respectively)	(843,567)	(748,414)
	3,257,831	3,194,700
Marketable securities (long-term)	3,393	5,116
Other assets: Turnaround costs	268,220	151,764
Goodwill (HEP: \$288,991 and \$288,991, respectively)	2,338,302	2,338,302
Intangibles and other (HEP: \$76,203 and \$76,300, respectively)	178,036	168,850
	2,784,558	2,658,916
Total assets	\$10,493,934	\$10,328,997
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable (HEP: \$13,720 and \$12,030, respectively)	\$1,593,370	\$1,314,151
Accrued liabilities (HEP: \$24,607 and \$23,705, respectively)	135,033	195,077
Deferred income tax liabilities	151,288	145,216
Total current liabilities	1,879,691	1,654,444
Long-term debt (HEP: \$799,152 and \$864,673, respectively)	990,236	1,336,238
Deferred income taxes (HEP: \$5,287 and \$4,951, respectively)	579,867	536,670
Other long-term liabilities (HEP: \$30,770 and \$28,683, respectively)	144,762	158,987
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, \$1.00 par value – 5,000,000 shares authorized; none issued	—	—
Common stock \$.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of June 30, 2013 and December 31, 2012	2,560	2,560

Edgar Filing: HollyFrontier Corp - Form 10-Q

Additional capital	3,982,060	3,911,353
Retained earnings	3,319,550	3,054,769
Accumulated other comprehensive income (loss)	33,206	(8,425 )
Common stock held in treasury, at cost – 55,902,645 and 52,411,370 shares as of June 30, 2013 and December 31, 2012, respectively	(1,071,943 )	(907,303 )
Total HollyFrontier stockholders' equity	6,265,433	6,052,954
Noncontrolling interest	633,945	589,704
Total equity	6,899,378	6,642,658
Total liabilities and equity	\$10,493,934	\$10,328,997

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. (“HEP”) as of June 30, 2013 and December 31, 2012. HEP is a consolidated variable interest entity.

See accompanying notes.

Table of Content
**HOLLYFRONTIER CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Sales and other revenues	\$5,298,848	\$4,806,681	\$10,006,637	\$9,738,419
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	4,456,808	3,681,764	8,249,343	7,868,681
Operating expenses (exclusive of depreciation and amortization)	277,542	222,726	542,641	464,353
General and administrative expenses (exclusive of depreciation and amortization)	34,000	32,106	63,198	59,634
Depreciation and amortization	70,492	56,948	142,254	113,050
Total operating costs and expenses	4,838,842	3,993,544	8,997,436	8,505,718
Income from operations	460,006	813,137	1,009,201	1,232,701
Other income (expense):				
Earnings (loss) of equity method investments	(1,089	) 886	(1,030	) 1,603
Interest income	778	681	2,309	1,141
Interest expense	(19,794	) (26,942	) (41,114	) (60,257
Loss on early extinguishment of debt	(22,109	) —	(22,109	) —
Gain on sale of marketable equity securities	—	326	—	326
	(42,214	) (25,049	) (61,944	) (57,187
Income before income taxes	417,792	788,088	947,257	1,175,514
Income tax provision:				
Current	143,439	285,937	350,066	428,807
Deferred	8,604	(219	) (11,929	) (2,683
	152,043	285,718	338,137	426,124
Net income	265,749	502,370	609,120	749,390
Less net income attributable to noncontrolling interest	8,768	8,871	18,470	14,195
Net income attributable to HollyFrontier stockholders	\$256,981	\$493,499	\$590,650	\$735,195
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$1.27	\$2.40	\$2.91	\$3.55
Diluted	\$1.27	\$2.39	\$2.91	\$3.54
Cash dividends declared per common share	\$0.80	\$0.65	\$1.60	\$1.25
Average number of common shares outstanding:				
Basic	201,543	205,727	202,131	207,129
Diluted	201,905	206,481	202,485	207,938

See accompanying notes.

Table of Content

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

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	2012		2012	
Net income	\$265,749	\$502,370	\$609,120	\$749,390
Other comprehensive income (loss):				
Securities available-for-sale:				
Unrealized gain (loss) on available-for-sale securities	(39 )	(114 )	(26 )	191 )
Reclassification adjustments to net income on sale or maturity of marketable securities	(6 )	(290 )	(3 )	(407 ) )
Net unrealized loss on available-for-sale securities	(45 )	(404 )	(29 )	(216 ) )
Hedging instruments:				
Change in fair value of cash flow hedging instruments	27,661	25,242	17,315	(115,455 )
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(6,073 )	4,286	21,631	(11,906 )
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	1,273	1,209	2,547
Net unrealized gain (loss) on hedging instruments	21,858	30,801	40,155	(124,814 )
Settlement of pension plan obligations	28,986	—	28,986	—
Actuarial loss on post-retirement healthcare plan reclassified to net income upon partial plan settlement	—	—	1,726	—
Pension plan curtailment adjustment	—	7,102	—	7,102
Other comprehensive income (loss) before income taxes	50,799	37,499	70,838	(117,928 )
Income tax expense (benefit)	18,986	14,640	26,474	(46,030 )
Other comprehensive income (loss)	31,813	22,859	44,364	(71,898 )
Total comprehensive income	297,562	525,229	653,484	677,492
Less noncontrolling interest in comprehensive income	10,708	8,734	21,202	14,595
Comprehensive income attributable to HollyFrontier stockholders	\$286,854	\$516,495	\$632,282	\$662,897

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$609,120	\$749,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	142,254	113,050
Earnings of equity method investments, net of distributions	2,593	(104 )
Loss on early extinguishment of debt attributable to unamortized discount	7,948	—
Gain on sale of marketable equity securities	—	(326 )
Deferred income taxes	(11,929 )	(2,683 )
Equity-based compensation expense	17,192	17,491
Change in fair value – derivative instruments	(57,192 )	10,289
(Increase) decrease in current assets:		
Accounts receivable	(122,875 )	103,674
Inventories	(230,811 )	(195,200 )
Income taxes receivable	12,526	365
Prepayments and other	10,040	17,928
Increase (decrease) in current liabilities:		
Accounts payable	216,506	(418,937 )
Income taxes payable	—	121,899
Accrued liabilities	(7,588 )	(34,870 )
Turnaround expenditures	(159,811 )	(46,995 )
Other, net	23,542	(5,468 )
Net cash provided by operating activities	451,515	429,503
Cash flows from investing activities:		
Additions to properties, plants and equipment	(153,942 )	(104,401 )
Additions to properties, plants and equipment – HEP	(16,861 )	(23,619 )
Proceeds from sale of property and equipment	5,802	—
Investment in Sabine Biofuels	(2,000 )	(2,000 )
Advances to Sabine Biofuels	(13,700 )	—
Purchases of marketable securities	(399,154 )	(166,429 )
Sales and maturities of marketable securities	398,762	151,996
Net cash used for investing activities	(181,093 )	(144,453 )
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	154,500	99,000
Repayments under credit agreement – HEP	(220,500 )	(129,000 )
Net proceeds from issuance of senior notes – HEP	—	294,750
Redemption of senior notes – HFC	(286,812 )	(5,000 )
Redemption premium on early extinguishment of debt	(14,161 )	—
Principal tender on senior notes – HEP	—	(185,000 )
Proceeds from sale of HEP common units	73,444	—
Proceeds from common unit offerings - HEP	73,444	—
Purchase of treasury stock	(159,432 )	(189,771 )

Edgar Filing: HollyFrontier Corp - Form 10-Q

Structured stock repurchase arrangement	—	(100,000 )
Contribution from joint venture partner	—	6,000
Dividends	(264,867 )	(249,958 )
Distributions to noncontrolling interest	(34,604 )	(28,944 )
Excess tax benefit from equity-based compensation	1,037	4,762
Purchase of units for incentive grants – HEP	(2,934 )	(4,533 )
Deferred financing costs	—	(3,229 )
Other	2,184	(833 )
Net cash used for financing activities	(678,701 )	(491,756 )
Cash and cash equivalents:		
Decrease for the period	(408,279 )	(206,706 )
Beginning of period	1,757,699	1,578,904
End of period	\$1,349,420	\$1,372,198
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$46,566	\$48,928
Income taxes	\$336,099	\$301,854

See accompanying notes.

Table of Content

HOLLYFRONTIER CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

References herein to HollyFrontier Corporation (“HollyFrontier”) include HollyFrontier and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission’s (“SEC”) “Plain English” guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In these financial statements, the words “we,” “our,” “ours” and “us” refer only to HollyFrontier and its consolidated subsidiaries or to HollyFrontier or an individual subsidiary and not to any other person, with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HollyFrontier, unless when used in disclosures of transactions or obligations between HEP and HollyFrontier or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HollyFrontier. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries.

We are principally an independent petroleum refiner that produces high-value light products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate petroleum refineries that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. As of June 30, 2013, we:

owned and operated a petroleum refinery in El Dorado, Kansas (the “El Dorado Refinery”), two refinery facilities located in Tulsa, Oklahoma (collectively, the “Tulsa Refineries”), a refinery in Artesia, New Mexico that is operated in conjunction with crude oil distillation and vacuum distillation and other facilities situated 65 miles away in Lovington, New Mexico (collectively, the “Navajo Refinery”), a refinery located in Cheyenne, Wyoming (the “Cheyenne Refinery”) and a refinery in Woods Cross, Utah (the “Woods Cross Refinery”);

owned and operated NK Asphalt Partners (“NK Asphalt”) which operates various asphalt terminals in Arizona and New Mexico;

owned Ethanol Management Company (“EMC”), a products terminal and blending facility near Denver, Colorado and a 50% interest in Sabine Biofuels II, LLC (“Sabine Biofuels”), a biodiesel production facility located in Port Arthur, Texas; and

owned a 39% interest in HEP, a consolidated variable interest entity (“VIE”), which includes our 2% general partner interest. HEP owns and operates logistic assets consisting of petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that principally support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.’s (“Alon”) refinery in Big Spring, Texas. Additionally, HEP owns a 75% interest in UNEV Pipeline, LLC (“UNEV”), which owns a 12-inch refined products pipeline from Salt Lake City, Utah to Las Vegas, Nevada, together with terminal facilities in the Cedar City, Utah and North Las Vegas areas (the “UNEV Pipeline”), and a 25% interest in SLC Pipeline LLC (the “SLC Pipeline”), a 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

We have prepared these consolidated financial statements without audit. In management’s opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of June 30, 2013, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2013 and 2012 and consolidated cash flows for the six months ended June 30, 2013 and 2012 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information



presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 that has been filed with the SEC.

Our results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2013.

**Balance Sheet Offsetting:** We purchase and sell inventories of crude oil with certain same-parties that are net settled in accordance with contractual net settlement provisions. Our policy is to present such balances on a net basis because it more appropriately presents our economic resources (accounts receivable) and claims against us (accounts payable) and the future cash flows associated with such assets and liabilities.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

**Accounts Receivable:** Our accounts receivable consist of amounts due from customers that are primarily companies in the petroleum industry. Credit is extended based on our evaluation of the customer's financial condition, and in certain circumstances collateral, such as letters of credit or guarantees, is required. We reserve for doubtful accounts based on our historical loss experience as well as specific accounts identified as high risk, which historically have been minimal. Credit losses are charged to the allowance for doubtful accounts when an account is deemed uncollectible. Our allowance for doubtful accounts was \$2.5 million at June 30, 2013 and December 31, 2012.

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

**Goodwill:** Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually, or more frequently if events or circumstances indicate the possibility of impairment. As of June 30, 2013, there have been no impairments to goodwill.

NOTE 2: Variable Interest Entities

Holly Energy Partners

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

As of June 30, 2013, we owned a 39% interest in HEP, including the 2% general partner interest. We are the primary beneficiary of HEP's earnings and cash flows and therefore we consolidate HEP. See Note 16 for supplemental guarantor/non-guarantor financial information, including HEP balances included in these consolidated financial statements. All intercompany transactions with HEP are eliminated in our consolidated financial statements.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 83% of HEP's total revenues for the six months ended June 30, 2013. We do not provide financial or equity support through any liquidity arrangements and /or debt guarantees to HEP.

HEP has outstanding debt under a senior secured revolving credit agreement and its senior notes. With the exception of the assets of HEP Logistics Holdings, L.P., one of our wholly-owned subsidiaries and HEP's general partner, HEP's creditors have no recourse to our assets. Any recourse to HEP's general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP, are not significant. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries. See Note 9 for a description of HEP's

debt obligations.

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

11

---

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

Transportation Agreements

HEP serves our refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 through 2026. Under these agreements, we pay HEP fees to transport, store and throughput volumes of refined product and crude oil on HEP's pipeline and terminal, tankage and loading rack facilities that result in minimum annual payments to HEP including UNEV (a consolidated subsidiary of HEP). Under these agreements, the agreed upon tariff rates are subject to annual tariff rate adjustments on July 1 at a rate based upon the percentage change in Producer Price Index ("PPI") or Federal Energy Regulatory Commission ("FERC") index. As of July 1, 2013, these agreements result in minimum annualized payments to HEP of \$225.5 million.

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

HEP Common Unit Offering

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

Sabine Biofuels

We have a 50% ownership interest in Sabine Biofuels, a biofuels production facility that is a VIE. We do not hold a controlling financial interest, nor are we its primary beneficiary. Accordingly, we account for our investment using the equity method of accounting which had a carrying amount of \$10.0 million at June 30, 2013 and is classified as a noncurrent asset under "Intangibles and other" in our consolidated balance sheets. Also, we have extended a working capital facility to Sabine Biofuels having an outstanding balance of \$17.9 million at June 30, 2013.

NOTE 3: Financial Instruments

Our financial instruments consist of cash and cash equivalents, investments in marketable securities, accounts receivable, accounts payable, debt and derivative instruments. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. HEP's outstanding credit agreement borrowings also approximate fair value as interest rates are reset frequently at current interest rates.

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

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

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

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



Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

The carrying amounts and related estimated fair values of our investments in marketable securities, derivative instruments and senior notes at June 30, 2013 and December 31, 2012 were as follows:

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level		
			Level 1	Level 2	Level 3
<b>June 30, 2013</b>					
Assets:					
Marketable debt securities	\$636,108	\$636,108	\$—	\$636,108	\$—
Commodity price swaps	51,720	51,720	—	12,683	39,037
HEP interest rate swaps	545	545	—	545	—
Total assets	\$688,373	\$688,373	\$—	\$649,336	\$39,037
Liabilities:					
NYMEX futures contracts	\$1,694	\$1,694	\$1,694	\$—	\$—
Commodity price swaps	28,398	28,398	—	26,487	1,911
HollyFrontier senior notes	155,489	161,250	—	161,250	—
HEP senior notes	444,152	452,625	—	452,625	—
Total liabilities	\$629,733	\$643,967	\$1,694	\$640,362	\$1,911
<b>December 31, 2012</b>					
Assets:					
Marketable debt securities	\$635,702	\$635,702	\$—	\$635,702	\$—
Commodity price swaps	17,383	17,383	—	6,151	11,232
Total assets	\$653,085	\$653,085	\$—	\$641,853	\$11,232
Liabilities:					
NYMEX futures contracts	\$5,563	\$5,563	\$5,563	\$—	\$—
Commodity price swaps	83,982	83,982	—	39,092	44,890
HollyFrontier senior notes	435,254	470,990	—	470,990	—
HEP senior notes	443,673	484,125	—	484,125	—
HEP interest rate swaps	3,430	3,430	—	3,430	—
Total liabilities	\$971,902	\$1,048,090	\$5,563	\$997,637	\$44,890

**Level 1 Financial Instruments**

Our NYMEX futures contracts are exchange traded and are measured and recorded at fair value using quoted market prices, a Level 1 input.

**Level 2 Financial Instruments**

Investments in marketable debt securities and derivative instruments consisting of commodity price swaps and HEP's interest rate swaps are measured and recorded at fair value using Level 2 inputs. The fair values of the commodity price and interest rate swap contracts are based on the net present value of expected future cash flows related to both variable and fixed rate legs of the respective swap agreements. The measurements are computed using market-based observable inputs, quoted forward commodity prices with respect to our commodity price swaps and the forward London Interbank Offered Rate ("LIBOR") yield curve with respect to HEP's interest rate swaps. The fair value of the marketable debt securities and senior notes is based on values provided by a third-party, which were derived using

market quotes for similar type instruments, a Level 2 input.

13

---

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

## Level 3 Financial Instruments

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

The following table presents the changes in fair value of the Level 3 assets and liabilities (all related to derivative instruments) for the three and six months ended June 30, 2013 and 2012:

Level 3 Financial Instruments	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Asset (liability) balance at beginning of period	\$(6,249	) \$(149,278	) \$(33,658	) \$31,616
Change in fair value:				
Recognized in other comprehensive income	50,615	248,572	1,413	33,553
Recognized in cost of products sold	3,662	—	47,222	—
Settlement date fair value of contractual maturities:				
Recognized in sales and other revenues	(3,868	) 20,167	15,316	54,292
Recognized in cost of products sold	(7,034	) —	6,833	—
Asset balance at end of period	\$37,126	\$119,461	\$37,126	\$119,461

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 derivative instruments would result in an estimated fair value change of approximately \$3.7 million.

## NOTE 4: Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Net income attributable to HollyFrontier stockholders	\$256,981	\$493,499	\$590,650	\$735,195
Participating securities' share in earnings	917	2,257	2,201	3,116
Net income attributable to common shares	\$256,064	\$491,242	\$588,449	\$732,079
Average number of shares of common stock outstanding	201,543	205,727	202,131	207,129
Effect of dilutive variable restricted shares and performance share units <sup>(1)</sup>	362	754	354	809
Average number of shares of common stock outstanding assuming dilution	201,905	206,481	202,485	207,938



Edgar Filing: HollyFrontier Corp - Form 10-Q

Basic earnings per share	\$1.27	\$2.40	\$2.91	\$3.55
Diluted earnings per share	\$1.27	\$2.39	\$2.91	\$3.54
(1) Excludes anti-dilutive restricted and performance share units of:	232	—	248	—

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

## NOTE 5: Stock-Based Compensation

As of June 30, 2013, we have two principal share-based compensation plans (collectively, the “Long-Term Incentive Compensation Plan”).

The compensation cost charged against income for these plans was \$7.9 million and \$7.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$15.3 million and \$15.9 million for the six months ended June 30, 2013 and 2012, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (substantially all of our awards) is to expense the costs ratably over the vesting periods.

Additionally, HEP maintains a share-based compensation plan for Holly Logistic Services, L.L.C. non-employee directors and certain executives and employees. Compensation cost attributable to HEP’s share-based compensation plan was \$0.8 million and \$0.7 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.9 million and \$1.6 million for the six months ended June 30, 2013 and 2012, respectively.

## Restricted Stock and Restricted Stock Units

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

A summary of restricted stock and restricted stock unit activity and changes during the six months ended June 30, 2013 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2013 (non-vested)	843,527	\$34.52	
Granted	33,181	46.09	
Vesting (transfer/conversion to common stock)	(125,600)	) 23.53	
Forfeited	(11,405)	) 36.11	
Outstanding at June 30, 2013 (non-vested)	739,703	\$36.88	\$31,645

For the six months ended June 30, 2013, 125,600 restricted stock and restricted stock units vested having a grant date fair value of \$3.0 million. As of June 30, 2013, there was \$11.8 million of total unrecognized compensation cost related to non-vested restricted stock and restricted stock unit grants. That cost is expected to be recognized over a weighted-average period of 1.1 years.

## Performance Share Units

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

The fair value of performance share unit awards subject to financial performance criteria is computed using the grant date closing stock price of each respective award grant and will apply to the number of units ultimately awarded. The number of shares ultimately issued for each award will be based on our financial performance as compared to peer group companies over the performance period and can range from zero to 200%. As of June 30, 2013, estimated share payouts for outstanding non-vested performance share unit awards ranged from 110% to 170%.

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

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

A summary of performance share unit activity and changes during the six months ended June 30, 2013 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2013 (non-vested)	875,574
Granted	528
Vesting and transfer of ownership to recipients	—
Forfeited	(13,719 )
Outstanding at June 30, 2013 (non-vested)	862,383

Based on the weighted-average grant date fair value of \$35.40 per share, there was \$22.2 million of total unrecognized compensation cost related to non-vested performance share units as of June 30, 2013. That cost is expected to be recognized over a weighted-average period of 1.4 years.

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

Our investment portfolio at June 30, 2013 consisted of cash, cash equivalents and investments in marketable debt securities.

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

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

Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
(In thousands)			

June 30, 2013

Edgar Filing: HollyFrontier Corp - Form 10-Q

Certificates of deposit	\$57,756	\$14	\$—	\$57,770
Commercial paper	37,574	16	—	37,590
Corporate debt securities	71,426	6	(47	) 71,385
State and political subdivisions debt securities	469,404	18	(59	) 469,363
Total marketable securities	\$636,160	\$54	\$(106	) \$636,108

December 31, 2012

Certificates of deposit	\$82,791	\$14	\$(6	) \$82,799
Commercial paper	45,737	17	—	45,754
Corporate debt securities	49,587	2	(30	) 49,559
State and political subdivisions debt securities	457,615	26	(51	) 457,590
Total marketable securities	\$635,730	\$59	\$(87	) \$635,702

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

Interest income recognized on our marketable debt securities was \$0.6 million and \$0.2 million for the three months ended June 30, 2013 and 2012, respectively, and \$1.1 million and \$0.5 million for the six months ended June 30, 2013 and 2012, respectively.

## NOTE 7: Inventories

Inventory consists of the following components:

	June 30, 2013	December 31, 2012
	(In thousands)	
Crude oil	\$544,127	\$502,978
Other raw materials and unfinished products <sup>(1)</sup>	186,121	150,090
Finished products <sup>(2)</sup>	741,823	585,610
Process chemicals <sup>(3)</sup>	6,848	3,514
Repairs and maintenance supplies and other	71,524	77,440
Total inventory	\$1,550,443	\$1,319,632

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

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

(3) Process chemicals include additives and other chemicals.

## NOTE 8: Environmental

We expensed \$0.6 million and \$1.0 million for the three months ended June 30, 2013 and 2012, respectively, and \$0.8 million and \$15.2 million for the six months ended June 30, 2013 and 2012, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was \$86.3 million and \$88.9 million at June 30, 2013 and December 31, 2012, respectively, of which \$66.9 million and \$72.6 million, respectively, were classified as other long-term liabilities. These accruals include remediation and monitoring costs expected to be incurred over an extended period of time (up to 30 years for certain projects).

## NOTE 9: Debt

## HollyFrontier Credit Agreement

We have a \$1 billion senior secured credit agreement that matures in July 2016 (the "HollyFrontier Credit Agreement") and may be used to fund working capital requirements, capital expenditures, acquisitions and general corporate purposes. Obligations under the HollyFrontier Credit Agreement are collateralized by our inventory, accounts receivables and certain deposit accounts and guaranteed by our material, wholly-owned subsidiaries. At June 30, 2013, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$28.8 million under the HollyFrontier Credit Agreement.

## HEP Credit Agreement

HEP has a \$550 million senior secured revolving credit facility that matures in June 2017 (the “HEP Credit Agreement”) and is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit and to fund distributions to unitholders up to a \$60 million sub-limit. At June 30, 2013, HEP was in compliance with all of its covenants, had outstanding borrowings of \$355.0 million and no outstanding letters of credit under the HEP Credit Agreement.

Table of Contents

HOLLYFRONTIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

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

HollyFrontier Senior Notes

Our 6.875% senior notes (\$150 million principal amount maturing November 2018) (the "HollyFrontier Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional debt, incur liens, enter into sale-and-leaseback transactions, pay dividends, enter into mergers, sell assets and enter into certain transactions with affiliates. At any time when the HollyFrontier Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights under the HollyFrontier Senior Notes.

In June 2013, we redeemed our \$286.8 million aggregate principal amount of 9.875% senior notes maturing June 2017 at a redemption cost of \$301.0 million, at which time we recognized a \$22.1 million early extinguishment loss consisting of a \$14.2 million debt redemption premium and an unamortized discount of \$7.9 million.

HollyFrontier Financing Obligation

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

HEP Senior Notes

HEP's senior notes consist of the following:

8.25% HEP senior notes (\$150 million principal amount maturing March 2018)

6.5% HEP senior notes (\$300 million principal amount maturing March 2020)

The 8.25% and 6.5% HEP senior notes (collectively, the "HEP Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the HEP Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights under the HEP Senior Notes.

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





Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

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

	June 30, 2013 (In thousands)	December 31, 2012
9.875% Senior Notes		
Principal	\$—	\$286,812
Unamortized discount	—	(7,468 )
	—	279,344
6.875% Senior Notes		
Principal	150,000	150,000
Unamortized premium	5,489	5,910
	155,489	155,910
Financing Obligation	35,595	36,311
Total HollyFrontier long-term debt	191,084	471,565
HEP Credit Agreement	355,000	421,000
HEP 8.25% Senior Notes		
Principal	150,000	150,000
Unamortized discount	(1,449 )	(1,602 )
	148,551	148,398
HEP 6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(4,399 )	(4,725 )
	295,601	295,275
Total HEP long-term debt	799,152	864,673
Total long-term debt	\$990,236	\$1,336,238

We capitalized interest attributable to construction projects of \$3.0 million and \$2.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$6.4 million and \$3.9 million for the six months ended June 30, 2013 and 2012, respectively.

NOTE 10: Derivative Instruments and Hedging Activities

Commodity Price Risk Management

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

• our inventory positions;

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

#### Accounting Hedges

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

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

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

	Unrealized Gain (Loss) Recognized in OCI (In thousands)	Gain (Loss) Recognized in Earnings Due to Settlements		Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	
		Location	Amount	Location	Amount
<b>Three Months Ended June 30, 2013</b>					
Commodity price swaps					
Change in fair value	\$24,764	Sales and other revenues	\$3,868	Sales and other revenues	\$550
Gain reclassified to earnings due to settlements	(6,589)	) Cost of products sold	1,930	) Cost of products sold	(1,439)
Amortization of discontinued hedge reclassified to earnings	270	) Operating expenses	521	) Operating expenses	106
Total	\$18,445		\$6,319		\$(783)
<b>Three Months Ended June 30, 2012</b>					
Commodity price swaps					
Change in fair value	\$27,044	Sales and other revenues	\$(20,167)	) Sales and other revenues	\$2,984
Loss reclassified to earnings due to settlements	3,992	) Cost of products sold	16,175	) Cost of products sold	(6,317)
Total	\$31,036		\$(3,992)	)	\$(3,333)
<b>Six Months Ended June 30, 2013</b>					
Commodity price swaps					
Change in fair value	\$14,360	Sales and other revenues	\$(15,316)	) Sales and other revenues	\$194
Loss reclassified to earnings due to settlements	20,611	) Cost of products sold	(4,603)	) Cost of products sold	1,692
Amortization of discontinued hedge reclassified to earnings	360	) Operating expenses	(1,052)	) Operating expenses	(259)
Total	\$35,331		\$(20,971)	)	\$1,627
<b>Six Months Ended June 30, 2012</b>					
Commodity price swaps					
Change in fair value	\$(113,076)	) Sales and other revenues	\$(54,292)	) Sales and other revenues	\$1,655
Gain reclassified to earnings due to settlements	(12,423)	) Cost of products sold	66,715	) Cost of products sold	(6,317)
Total	\$(125,499)	)	\$12,423	)	\$(4,662)

As of June 30, 2013, we have the following notional contract volumes related to outstanding derivative instruments serving as cash flow hedges against price risk on forecasted purchases of natural gas and crude oil and sales of refined

products:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity					Unit of Measure
		2013	2014	2015	2016	2017	
<b>Commodity Price Swaps:</b>							
Natural gas - long	43,200,000	4,800,000	9,600,000	9,600,000	9,600,000	9,600,000	MMBTU
WTI crude oil - long	5,701,000	5,336,000	365,000	—	—	—	Barrels
Ultra-low sulfur diesel - short	5,701,000	5,336,000	365,000	—	—	—	Barrels

20

---

Table of Contents

## HOLLYFRONTIER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

In the first quarter of 2013, we dedesignated certain commodity price swaps (long positions) that previously received hedge accounting treatment. These contracts now serve as economic hedges against price risk on forecasted natural gas purchases totaling 43,200,000 MMBTU's to be purchased ratably through 2017. As of June 30, 2013, we have an unrealized loss of \$4.9 million classified as OCI that relates to the application of hedge accounting prior to dedesignation that will be amortized as a charge to operating expenses as the contracts mature.

## Economic Hedges

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

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

Location of Gain (Loss) Recognized in Income	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Cost of products sold	\$1,839	\$50,863	\$35,431	\$35,869
Operating expenses	(308	) 1,543	(5,301	) (158
Total	\$1,531	\$52,406	\$30,130	\$35,711

As of June 30, 2013, we have the following notional contract volumes related to our outstanding derivative contracts serving as economic hedges:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity					Unit of Measure
		2013	2014	2015	2016	2017	
Commodity price swap (WCS spread) - long	3,588,000	3,588,000	—	—	—	—	Barrels
Commodity price swap (WTS spread) - long	1,472,000	1,472,000	—	—	—	—	Barrels
Commodity price swap (natural gas) - long	43,200,000	4,800,000	9,600,000	9,600,000	9,600,000	9,600,000	MMBTU
Commodity price swap (natural gas) - short	43,200,000	4,800,000	9,600,000	9,600,000	9,600,000	9,600,000	MMBTU
NYMEX futures (WTI) - short	1,896,000	1,681,000	215,000	—	—	—	Barrels

## Interest Rate Risk Management

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

As of June 30, 2013, HEP had three interest rate swap contracts that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on \$305.0 million in credit agreement advances. The first interest rate swap effectively converts \$155.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.50% as of June 30, 2013, which equaled an effective interest rate of 3.49%. This swap matures in February 2016. HEP has two additional interest rate swaps with identical terms which effectively convert \$150.0 million of LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.50% as of June 30, 2013, which equaled an effective interest rate of 3.24%. Both of these swap contracts mature in July 2017. All of these swap contracts have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

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

	Unrealized Gain (Loss) Recognized in OCI (In thousands)	Loss Recognized in Earnings Due to Settlements Location	Amount
Three Months Ended June 30, 2013			
Interest rate swaps			
Change in fair value	\$2,897		
Loss reclassified to earnings due to settlements	516	Interest expense	\$(516 )
Total	\$3,413		\$(516 )
Three Months Ended June 30, 2012			
Interest rate swaps			
Change in fair value	\$(1,802 )		
Loss reclassified to earnings due to settlements	294		
Amortization of discontinued hedge reclassified to earnings	1,273	Interest expense	\$(1,567 )
Total	\$(235 )		\$(1,567 )
Six Months Ended June 30, 2013			
Interest rate swaps			
Change in fair value	\$2,955		
Loss reclassified to earnings due to settlements	1,020		
Amortization of discontinued hedge reclassified to earnings	849	Interest expense	\$(1,869 )
Total	\$4,824		\$(1,869 )
Six Months Ended June 30, 2012			
Interest rate swaps			
Change in fair value	\$(2,380 )		
Loss reclassified to earnings due to settlements	518		
Amortization of discontinued hedge reclassified to earnings	2,547	Interest expense	\$(3,065 )
Total	\$685		\$(3,065 )

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



Table of Contents

## HOLLYFRONTIER CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) Continued

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
	(In thousands)					
June 30, 2013						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	\$35,732	\$(14,358)	) \$21,374	\$—	\$—	\$—
Interest rate swap contracts	2,257	(1,712)	) 545	—	—	—
	\$37,989	\$(16,070)	) \$21,919	\$—	\$—	\$—
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	\$15,988	\$(14,040)	) \$1,948	\$—	\$—	\$—
NYMEX futures contracts	—	—	—	1,694	—	1,694
	\$15,988	\$(14,040)	) \$1,948	\$1,694	\$—	\$1,694
Total net balance			\$23,867			\$1,694
Balance sheet classification:	Prepayment and other		\$39,217	Accrued liabilities		\$1,694
	Intangibles and other		2,257			
	Other long-term liabilities		(17,607)			
			\$23,867			\$1,694
	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
	(In thousands)					
December 31, 2012						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	\$—	\$—	\$—	\$37,828	\$(17,383)	) \$20,445
Interest rate swap contracts	—	—	—	3,430	—	3,430
	\$—	\$—	\$—	\$41,258	\$(17,383)	) \$23,875

Edgar Filing: HollyFrontier Corp - Form 10-Q

Derivatives not designated as cash flow hedging instruments:

Commodity price swap contracts	\$—	\$—	\$—	\$46,154	\$—	\$46,154
NYMEX futures contracts	—	—	—	5,563	—	5,563
	\$—	\$—	\$—	\$51,717	\$—	\$51,717
Total net balance			\$—			\$75,592

Balance sheet classification:

Accrued liabilities	\$62,388
Other long-term liabilities	13,204
	\$75,592

At June 30, 2013, we had a pre-tax net unrealized gain of \$15.7 million classified in accumulated other comprehensive income that relates to all accounting hedges having contractual maturities through 2017. Assuming commodity prices and interest rates remain unchanged, an unrealized gain of \$29.2 million will be effectively transferred from accumulated other comprehensive income into the statement of income as the hedging instruments contractually mature over the next twelve-month period.

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

## NOTE 11: Equity

Changes to equity during the six months ended June 30, 2013 are presented below:

	HollyFrontier Stockholders' Equity (In thousands)	Noncontrolling Interest	Total Equity
Balance at December 31, 2012	\$6,052,954	\$589,704	\$6,642,658
Net income	590,650	18,470	609,120
Dividends	(325,869)	—	(325,869)
Distributions to noncontrolling interest holders	—	(34,604)	(34,604)
Other comprehensive income, net of tax	41,631	2,733	44,364
Allocated equity on HEP common unit issuances, net of tax	54,011	58,696	112,707
Equity-based compensation	15,312	1,880	17,192
Excess tax benefit attributable to equity-based compensation	1,037	—	1,037
Purchase of treasury stock <sup>(1)</sup>	(164,293)	—	(164,293)
Purchase of HEP units for restricted grants	—	(2,934)	(2,934)
Balance at June 30, 2013	\$6,265,433	\$633,945	\$6,899,378

<sup>(1)</sup> Includes 32,779 shares withheld under the terms of stock-based compensation agreements to provide funds for the payment of payroll and income taxes due at the vesting of share-based awards.

We have a Board approved repurchase program that authorizes us to repurchase common stock in the open market or through privately negotiated transactions. The timing and amount of stock repurchases will depend on market conditions, corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of June 30, 2013, we had remaining authorization to repurchase up to \$356.4 million under this stock repurchase program.

## NOTE 12: Other Comprehensive Income (Loss)

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

	Before-Tax	Tax Expense (Benefit)	After-Tax
	(In thousands)		
Three Months Ended June 30, 2013			
Unrealized loss, net of reclassifications from sale or maturity, on available-for-sale securities	\$(45)	\$(36)	\$(9)
Unrealized gain on hedging activities	21,858	7,747	14,111
Actuarial loss on retirement pension plan reclassified to net income upon partial plan settlement	28,986	11,275	17,711
Other comprehensive income	50,799	18,986	31,813
Less other comprehensive income attributable to noncontrolling interest	1,940	—	1,940
	\$48,859	\$18,986	\$29,873

Edgar Filing: HollyFrontier Corp - Form 10-Q

Other comprehensive income attributable to HollyFrontier stockholders

Three Months Ended June 30, 2012

Unrealized loss, net of reclassifications from sale or maturity, on available-for-sale securities	\$(404	)	\$(158	)	\$(246	)
Unrealized gain on hedging activities	30,801		12,035		18,766	
Pension plan curtailment	7,102		2,763		4,339	
Other comprehensive income	37,499		14,640		22,859	
Less other comprehensive loss attributable to noncontrolling interest	(137	)	—	)	(137	)
Other comprehensive income attributable to HollyFrontier stockholders	\$37,636		\$14,640		\$22,996	

24

---

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

	Before-Tax (In thousands)	Tax Expense (Benefit)	After-Tax
<b>Six Months Ended June 30, 2013</b>			
Unrealized loss, net of reclassifications from sale or maturity, on available-for-sale securities	\$(29 )	\$(28 )	\$(1 )
Unrealized gain on hedging activities	40,155	14,556	25,599
Actuarial loss on retirement pension plan reclassified to net income upon partial plan settlement	28,986	11,275	17,711
Actuarial loss on post-retirement healthcare plan reclassified to net income upon partial plan settlement	1,726	671	1,055
Other comprehensive income	70,838	26,474	44,364
Less other comprehensive income attributable to noncontrolling interest	2,733	—	2,733
Other comprehensive income attributable to HollyFrontier stockholders	\$68,105	\$26,474	\$41,631
<b>Six Months Ended June 30, 2012</b>			
Unrealized loss on available-for-sale securities	\$(216 )	\$(84 )	\$(132 )
Unrealized loss on hedging activities	(124,814 )	(48,709 )	(76,105 )
Pension plan curtailment	7,102	2,763	4,339
Other comprehensive loss	(117,928 )	(46,030 )	(71,898 )
Less other comprehensive income attributable to noncontrolling interest	400	—	400
Other comprehensive loss attributable to HollyFrontier stockholders	\$(118,328 )	\$(46,030 )	\$(72,298 )

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

AOCI Component	Gain (Loss) Reclassified From AOCI (In thousands)		Income Statement Line Item
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	
Securities available-for-sale	\$6	\$3	Interest income
	2	1	Income tax expense
	\$4	\$2	Net of tax
<b>Hedging instruments:</b>			
Commodity price swaps	\$3,868	\$(15,316	) Sales and other revenues
	1,930	(4,603	) Cost of products sold
	521	(1,052	) Operating expenses
Interest rate swaps	(516	) (1,869	) Interest expense
	5,803	(22,840	)
	2,379	(8,444	) Income tax expense (benefit)
	3,424	(14,396	) Net of tax

Edgar Filing: HollyFrontier Corp - Form 10-Q

	313	1,133	Noncontrolling interest
	\$3,737	\$(13,263	) Net of tax and noncontrolling interest
Pension obligation	\$(2,460	) \$(2,460	) Cost of products sold
	(23,260	) (23,260	) Operating expenses
	(3,266	) (3,266	) General and administrative expenses
	(28,986	) (28,986	)
	(11,275	) (11,275	) Income tax benefit
	\$(17,711	) \$(17,711	) Net of tax
Retiree medical obligation	\$—	\$(84	) Cost of products sold
	—	(1,549	) Operating expenses
	—	(93	) General and administrative expenses
	—	(1,726	)
	—	(671	) Income tax benefit
	\$—	\$(1,055	) Net of tax
Total reclassifications for the period	\$(13,970	) \$(32,027	)

Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

AOCI Component	Gain (Loss) Reclassified From AOCI		Income Statement Line Item
	(In thousands)		
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	
Securities available-for-sale	\$ (36	) \$ 81	Interest income
	326	326	Gain on sale of marketable equity securities
	290	407	
	113	158	Income tax expense
	\$ 177	\$ 249	Net of tax
Hedging instruments			
Commodity price swaps	\$ (20,167	) \$ (54,292	) Sales and other revenues
	16,175	66,715	Cost of products sold
Interest rate swaps	(1,567	) (3,065	) Interest expense
	(5,559	) 9,358	
	(1,807	) 4,335	Income tax expense (benefit)
	(3,752	) 5,023	Net of tax
	913	1,785	Noncontrolling interest
	\$ (2,839	) \$ 6,808	Net of tax and noncontrolling interest
Total reclassifications for the period	\$ (2,662	) \$ 7,057	

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Pension obligation	\$ (6,262	) \$ (23,973
Retiree medical obligation	29,660	28,605
Unrealized loss on available-for-sale securities	(8	) (7
Unrealized gain (loss) on hedging activities, net of noncontrolling interest	9,816	(13,050
Accumulated other comprehensive income (loss)	\$ 33,206	\$ (8,425

## NOTE 13: Retirement Plan

We previously sponsored a non-contributory defined benefit retirement plan that covered certain employees and was fully frozen prior to 2013. In 2012, our Compensation Committee, pursuant to authority delegated to it by the Board of Directors, approved the termination of the HollyFrontier Corporation Pension Plan (the "Plan"). In June 2013, we made contributions of \$22.7 million to the Plan.

Our contribution to the Plan in the second quarter of 2013 was sufficient for the Plan to settle its obligations to all participants including the premium paid to the non-participating annuity provider; however, the contract with this

annuity provider was not executed as of June 30, 2013. Accordingly, in the second quarter of 2013, we recognized a pre-tax pension settlement charge of \$30.9 million, of which \$29.0 million was reclassified out of accumulated other comprehensive income, representing the irrevocable portion. We expect to record an additional pre-tax charge of \$8.6 million, which includes the remaining pension loss recorded in accumulated other comprehensive income, when the Plan finalizes the contract terms with the annuity provider, which we expect to occur in the third quarter of 2013.



Table of Contents

HOLLYFRONTIER CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited) Continued

The net periodic pension expense consisted of the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Service cost – benefit earned during the period	\$—	\$509	\$—	\$679
Interest cost on projected benefit obligations	898	1,061	1,797	2,052
Expected return on plan assets	(46	) (949	) (92	) (1,899
Amortization of prior service cost	—	50	—	67
Amortization of net loss	693	620	1,386	1,103
Curtailment	—	674	—	899
Settlement	30,893	—	30,893	—
Net periodic pension expense	\$32,438	\$1,965	\$33,984	\$2,901

In 2012, we established a program for plan participants whose benefits pursuant to the defined benefit plan were frozen. The program provides for payments after year-end for three years (beginning with 2012) provided the employee is employed by us on the last day of each year. The payments are based on each employee's years of service and eligible salary. Transition benefit costs associated with transition to the new defined contribution plan were \$2.9 million and \$3.5 million for the three months ended June 30, 2013 and 2012, respectively, and \$5.8 million and \$6.9 million, for the six months ended June 30, 2013 and 2012, respectively.

We have a post-retirement healthcare and othe