HollyFrontier Corp
Form 10-Q
May 04, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ____________
Commission File Number 1-3876

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
176,519,301 shares of Common Stock, par value $.01 per share, were outstanding on April 29, 2016.

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FORWARD-LOOKING STATEMENTS

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

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under "Results of Operations," "Liquidity and Capital Resources" and "Risk Management" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and those in Part II, Item 1 "Legal Proceedings" are forward-looking statements. Forward-looking statements use words such as "anticipate," "project," "expect," "plan," "goal," "forecast," "intend," "should," "would," "could," "believe," "may," and similar expressions and state regarding our plans and objectives for future operations. 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. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. 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, 2015 and in conjunction with the discussion in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Liquidity and Capital Resources." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

DEFINITIONS

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

“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.

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

“Crude oil 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.

“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 commercial heavy duty engine oils, passenger car oils and specialty products for industrial applications such as heat transfer, metalworking, rubber and other general process oil.

“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.

“MMBTU” means one million British thermal units.

“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.

“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.

“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.

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

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: $9,034 and $15,013, respectively)	$111,021	$66,533
Marketable securities	—	144,019
Total cash, cash equivalents and short-term marketable securities	111,021	210,552
Accounts receivable: Product and transportation (HEP: $41,055 and $41,075, respectively)	410,764	323,858
Crude oil resales	20,150	28,120
	430,914	351,978
Inventories: Crude oil and refined products	762,800	712,865
Materials, supplies and other (HEP: $2,122 and $1,972, respectively)	129,138	129,004
	891,938	841,869
Income taxes receivable	32,813	—
Prepayments and other (HEP: $3,059 and $3,082, respectively)	32,584	43,666
Total current assets	1,499,270	1,448,065
Properties, plants and equipment, at cost (HEP: $1,383,186 and $1,397,965, respectively)	5,625,455	5,490,189
Less accumulated depreciation (HEP: $(290,743) and $(298,282), respectively)	(1,429,198)	(1,374,527)
	4,196,257	4,115,662
Other assets: Turnaround costs	263,773	231,873
Goodwill (HEP: $288,991 and $288,991, respectively)	2,331,781	2,331,781
Intangibles and other (HEP: $170,896 and $128,583, respectively)	303,206	260,918
	2,898,760	2,824,572
Total assets	$8,594,287	$8,388,299
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: $18,480 and $22,583, respectively)	$731,271	$716,490
Income taxes payable	—	8,142
Accrued liabilities (HEP: $16,074 and $26,341, respectively)	154,337	135,983
Total current liabilities	885,608	860,615
Long-term debt (HEP: $1,061,944 and $1,008,752, respectively)	1,308,168	1,040,040
Deferred income taxes (HEP: $458 and $431, respectively)	544,308	497,906
Other long-term liabilities (HEP: $55,381 and $59,376, respectively)	213,005	179,965
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 March 31, 2016 and December 31, 2015	2,560	2,560
Additional capital	4,011,634	4,011,052

Retained earnings	3,234,040	3,271,189
Accumulated other comprehensive loss	(4,566)	(4,155)
Common stock held in treasury, at cost – 79,442,190 and 75,728,478 shares as of March 31, 2016 and December 31, 2015, respectively	(2,156,844)	(2,027,231)
Total HollyFrontier stockholders' equity	5,086,824	5,253,415
Noncontrolling interest	556,374	556,358
Total equity	5,643,198	5,809,773
Total liabilities and equity	$ 8,594,287	$ 8,388,299

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. ("HEP") as of March 31, 2016 and December 31, 2015. HEP is a consolidated variable interest entity.

See accompanying notes.

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

	Three Months Ended March 31, 2016	2015
Sales and other revenues	$2,018,724	$3,006,626
Operating costs and expenses:		
Cost of products sold (exclusive of depreciation and amortization):		
Cost of products sold (exclusive of lower of cost or market inventory valuation adjustment)	1,625,163	2,251,373
Lower of cost or market inventory valuation adjustment	(56,121)	(6,546)
	1,569,042	2,244,827
Operating expenses (exclusive of depreciation and amortization)	252,583	263,596
General and administrative expenses (exclusive of depreciation and amortization)	25,621	29,569
Depreciation and amortization	87,880	80,012
Total operating costs and expenses	1,935,126	2,618,004
Income from operations	83,598	388,622
Other income (expense):		
Earnings (loss) of equity method investments	2,765	(7,807)
Interest income	75	962
Interest expense	(12,087)	(10,154)
Loss on early extinguishment of debt	(8,718)	—
Gain on sale of assets and other	65	766
	(17,900)	(16,233)
Income before income taxes	65,698	372,389
Income tax provision:		
Current	(24,354)	139,198
Deferred	46,662	(9,470)
	22,308	129,728
Net income	43,390	242,661
Less net income attributable to noncontrolling interest	22,137	15,785
Net income attributable to HollyFrontier stockholders	$21,253	$226,876
Earnings per share attributable to HollyFrontier stockholders:		
Basic	$0.12	$1.16
Diluted	$0.12	$1.16
Cash dividends declared per common share	$0.33	$0.32
Average number of common shares outstanding:		
Basic	176,737	195,069
Diluted	176,784	195,121

See accompanying notes.

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

	Three Months Ended March 31, 2016	2015
Net income	$ 43,390	$ 242,661
Other comprehensive income:		
Securities available-for-sale:		
Unrealized gain on marketable securities	78	108
Reclassification adjustments to net income on sale or maturity of marketable securities	23	(40)
Net unrealized gain on marketable securities	101	68
Hedging instruments:		
Change in fair value of cash flow hedging instruments	(12,604)	(15,428)
Reclassification adjustments to net income on settlement of cash flow hedging instruments	11,286	(4,161)
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	270
Net unrealized loss on hedging instruments	(1,048)	(19,319)
Other comprehensive loss before income taxes	(947)	(19,251)
Income tax benefit	(261)	(7,275)
Other comprehensive loss	(686)	(11,976)
Total comprehensive income	42,704	230,685
Less noncontrolling interest in comprehensive income	21,862	15,331
Comprehensive income attributable to HollyFrontier stockholders	$ 20,842	$ 215,354

See accompanying notes.

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

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	$43,390	$242,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	87,880	80,012
Lower of cost or market inventory valuation adjustment	(56,121)	(6,546)
Net (gain) loss of equity method investments, inclusive of distributions	(265)	8,557
Gain on sale of assets	(23)	(766)
Loss on early extinguishment of debt	8,718	—
Deferred income taxes	46,662	(9,470)
Equity-based compensation expense	3,226	7,225
Change in fair value – derivative instruments	3,189	2,223
(Increase) decrease in current assets:		
Accounts receivable	(78,936)	63,517
Inventories	7,276	(74,001)
Income taxes receivable	(32,813)	11,719
Prepayments and other	10,586	22,203
Increase (decrease) in current liabilities:		
Accounts payable	2,401	(165,839)
Income taxes payable	(10,555)	92,374
Accrued liabilities	8,519	(3,059)
Turnaround expenditures	(36,994)	(29,100)
Other, net	496	5,182
Net cash provided by operating activities	6,636	246,892
Cash flows from investing activities:		
Additions to properties, plants and equipment	(131,700)	(120,892)
Additions to properties, plants and equipment – HEP	(17,873)	(51,727)
Proceeds from sale of assets	258	814
Purchases of marketable securities	(4,082)	(118,816)
Sales and maturities of marketable securities	148,204	178,524
Net cash used for investing activities	(5,193)	(112,097)
Cash flows from financing activities:		
Borrowings under credit agreements	837,000	153,500
Repayments under credit agreements	(784,000)	(130,500)
Net proceeds from issuance of senior notes	246,690	—
Repayment of financing obligation	(39,500)	—
Inventory repurchase obligation	693	7,434
Purchase of treasury stock	(133,430)	(55,065)
Dividends	(58,602)	(62,335)
Distributions to noncontrolling interest	(21,731)	(20,472)
Other, net	(4,075)	(1,250)

Net cash provided by (used for) financing activities	43,045	(108,688)
Cash and cash equivalents:		
Increase for the period	44,488	26,107
Beginning of period	66,533	567,985
End of period	$111,021	$594,092
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$15,261	$14,522
Income taxes	$19,166	$38,985

See accompanying notes.

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

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

We are principally an independent petroleum refiner that produces high-value light products such as gasoline, diesel fuel, jet fuel, specialty lubricant products, and specialty and modified asphalt. We own and operate petroleum refineries that serve markets throughout the Mid-Continent, Southwest and Rocky Mountain regions of the United States. As of March 31, 2016, 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 HollyFrontier Asphalt Company LLC ("HFC Asphalt") which operates various asphalt terminals in Arizona, New Mexico and Oklahoma; and
- owned a 39% interest in HEP, a consolidated variable interest entity ("VIE"), which includes our 2% general partner interest.

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, 2016, the consolidated results of operations and comprehensive income for the three months ended March 31, 2016 and 2015 and consolidated cash flows for the three months ended March 31, 2016 and 2015 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, 2015 that has been filed with the SEC.

Our results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2016.

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 $2.3 million at both March 31, 2016 and December 31, 2015.

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Inventories: Inventories are stated at the lower of cost, using the last-in, first-out ("LIFO") method for crude oil, unfinished and finished refined products and the average cost method for materials and supplies, or market. In periods of rapidly declining prices, LIFO inventories may have to be written down to market value due to the higher costs assigned to LIFO layers in prior periods. In addition, the use of the LIFO inventory method may result in increases or decreases to cost of sales in years that inventory volumes decline as the result of charging cost of sales with LIFO inventory costs generated in prior periods. An actual valuation of inventory under the LIFO method is 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: We have goodwill that primarily arose from our merger with Frontier Oil Corporation on July 1, 2011. Goodwill represents the excess of the cost of an acquired entity over the fair value of the assets acquired and liabilities assumed. Goodwill is not subject to amortization and is tested annually or more frequently if events or circumstances indicate the possibility of impairment. As of March 31, 2016, there have been no impairments to goodwill.

Historically, the refining industry has experienced significant fluctuations in operating results over an extended business cycle including changes in prices of crude oil and refined products, changes in operating costs including natural gas and higher costs of complying with government regulations. It is possible that the goodwill related to our Cheyenne Refinery will be determined to be impaired at some point in the future. A prolonged, moderate decrease in operating margins could potentially result in impairment to goodwill allocated to our Cheyenne reporting unit. Such impairment charges could be material.

Inventory Repurchase Obligations: We periodically enter into same-party sell / buy transactions, whereby we sell certain refined product inventory and subsequently repurchase the inventory in order to facilitate delivery to certain locations. Such sell / buy transactions are accounted as inventory repurchase obligations under which proceeds received under the initial sell is recognized as an inventory repurchase obligation that is subsequently reversed when the inventory is repurchased. For the three months ended March 31, 2016 and 2015, we received proceeds of $14.3 million and $30.2 million, respectively, and repaid $13.6 million and $22.8 million, respectively, under these sell / buy transactions.

New Accounting Pronouncements

Leases
In February 2016, Accounting Standard Update ("ASU") 2016-02, "Leases" was issued requiring leases to be measured and recognized as a lease liability, with a corresponding right-of-use asset on the balance sheet. This standard has an effective date of January 1, 2019, and we are evaluating the impact of this standard.

Consolidation
In February 2015, ASU 2015-02, "Consolidation" was issued to improve consolidation guidance for certain legal entities. It modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities involved with VIEs, particularly those that have fee arrangements and related party provisions and provides a scope exception from consolidation guidance for certain reporting entities that comply with or operate in accordance with requirements that are similar to those included in Rule 2a-7 of the

Investment Company Act of 1940 for registered money market funds. We adopted this standard effective January 1, 2016, which did not affect our financial position or results of operations.

Revenue Recognition

In May 2014, ASU 2014-09, “Revenue from Contracts with Customers” was issued requiring revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods or services. This standard has an effective date of January 1, 2018, and we are evaluating the impact of this standard.

NOTE 2: Holly Energy Partners

HEP, a consolidated VIE, is a publicly held master limited partnership that owns and operates logistic assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and refinery processing units 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"), the owner of a pipeline running from Woods Cross, Utah to Las Vegas, Nevada (the "UNEV Pipeline") and associated product terminals; a 50% interest in Frontier Pipeline Company, the owner of a pipeline running from Wyoming to Frontier Station, Utah (the "Frontier Pipeline"); a 50% interest in Osage Pipe Line Company, LLC, the owner of a pipeline running from Cushing, Oklahoma to El Dorado, Kansas (the "Osage Pipeline"); and a 25% interest in SLC Pipeline LLC, the owner of a pipeline (the "SLC Pipeline") that serves refineries in the Salt Lake City, Utah area.

As of March 31, 2016, we owned a 39% interest in HEP, including the 2% general partner interest. As the general partner of HEP, we have the sole ability to direct the activities that most significantly impact HEP's financial performance, and therefore we consolidate HEP.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 81% of HEP's total revenues for the three months ended March 31, 2016. 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 other 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.

Tulsa Tanks
On March 31, 2016, HEP acquired crude oil tanks located at our Tulsa Refineries from an affiliate of Plains All American Pipeline, L.P. ("Plains") for $39.5 million. Previously in 2009, we sold these tanks to Plains and leased them back, and due to our continuing interest in the tanks, we accounted for the transaction as a financing arrangement. Accordingly, the tanks remained on our balance sheet and were depreciated for accounting purposes, and the proceeds received from Plains were recorded as a financing obligation and presented as a component of outstanding debt.

In accounting for HEP's March 2016 purchase from Plains, the amount paid was recorded against our outstanding financing obligation balance of $30.8 million, with the excess $8.7 million payment resulting in a loss on early extinguishment of debt.

Magellan Asset Exchange

On February 22, 2016, we acquired a 50% membership interest in Osage Pipe Line Company, LLC ("Osage") in exchange for a 20-year terminalling services agreement, whereby a subsidiary of Magellan Midstream Partners ("Magellan Midstream") will provide terminalling services for all of our products originating in Artesia, New Mexico that require terminalling in or through El Paso, Texas. Under the agreement, we will be charged tariffs based on the volumes of refined product processed. Osage is the owner of the Osage Pipeline, a 135-mile pipeline that transports crude oil from Cushing, Oklahoma to our El Dorado Refinery in Kansas and also has a connection to the Jayhawk pipeline that services the CHS refinery in McPherson, Kansas. This exchange was accounted for at fair value, whereby the 50% membership interest in the Osage Pipeline was recorded at appraised fair value and an offsetting residual deferred credit in the amount of $38.9 million was recorded, which will be amortized over the 20-year service period. No gain or loss was recorded for this exchange.

Also on February 22, 2016, we contributed the 50% membership interest in Osage to HEP, and in exchange received HEP's El Paso terminal. Pursuant to this exchange, HEP agreed to build two connections to Magellan Midstream's El Paso terminal. In addition, HEP agreed to become operator of the Osage Pipeline. This exchange was accounted for at carry-over basis with no resulting gain or loss.

Transportation Agreements
HEP serves our refineries under long-term pipeline, terminal and tankage throughput agreements and refinery processing tolling agreements expiring from 2019 through 2030. Under these agreements, we pay HEP fees to transport, store and process throughput volumes of refined products, crude oil and feedstocks on HEP's pipeline, terminals, tankage, loading rack facilities and refinery processing units 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 or Federal Energy Regulatory Commission index. As of March 31, 2016, these agreements result in minimum annualized payments to HEP of $263.7 million.

Our transactions with HEP including the acquisitions discussed above and fees paid under our transportation agreements with HEP and UNEV are eliminated and have no impact on our consolidated financial statements.

NOTE 3: Fair Value Measurements

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

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

- (Level 1) Quoted prices in active markets for identical assets or liabilities.
- (Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
- (Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

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The carrying amounts and estimated fair values of marketable securities, derivative instruments and senior notes at March 31, 2016 and December 31, 2015 were as follows:

	Carrying Amount	Fair Value	Fair Value by Input Level: Level 1	Level 2	Level 3
	(In thousands)				
March 31, 2016					
Assets:					
Commodity price swaps	$33,619	$33,619	$—	$33,619	$ —
Forward contracts	4,197	4,197	—	4,197	—
Total assets	$37,816	$37,816	$—	$37,816	$ —
Liabilities:					
NYMEX futures contracts	$768	$768	$768	$—	$ —
Commodity price swaps	91,295	91,295	—	91,295	—
Forward contracts	6,947	6,947	—	6,947	—
HollyFrontier senior notes	246,224	250,313	—	250,313	—
HEP senior notes	296,944	295,500	—	295,500	—
HEP interest rate swaps	263	263	—	263	—
Total liabilities	$642,441	$645,086	$768	$644,318	$ —
December 31, 2015					
Assets:					
Marketable securities	$144,019	$144,019	$—	$144,019	$—
NYMEX futures contracts	3,469	3,469	3,469	—	—
Commodity price swaps	37,097	37,097	—	37,097	—
HEP interest rate swaps	304	304	—	304	—
Total assets	$184,889	$184,889	$3,469	$181,420	$—
Liabilities:					
Commodity price swaps	$98,930	$98,930	$—	$98,930	$—
HEP senior notes	296,752	295,500	—	295,500	—
HEP interest rate swaps	114	114	—	114	—
Total liabilities	$395,796	$394,544	$—	$394,544	$—

Level 1 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 Instruments
Derivative instruments consisting of commodity price swaps, forward sales and purchase contracts 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 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.

Level 3 Instruments

We at times have forward commodity sales and purchase contracts for which quoted forward market prices are not readily available. The forward rate used to value these forward sales and purchase contracts are 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 our Level 3 assets and liabilities (all related to derivative instruments) for the three months ended March 31, 2015:

Level 3 Instruments	Three Months Ended March 31, 2015
	(In thousands)
Liability balance at beginning of period	$ —
Change in fair value:	
Recognized in other comprehensive income	(2,552)
Settlement date fair value of contractual maturities:	
Recognized in sales and other revenues	—
Liability balance at end of period	$ (2,552)

Additionally during the three months ended March 31, 2016, we recognized a non-recurring fair value measurement of $44.4 million that relates to HEP’s equity interest in Osage. The fair value was based on a combination of valuation methods including discounted cash flows, and the guideline public company and guideline transaction methods, level 3 inputs.

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 restricted shares and performance share units. The following is a reconciliation of the denominators of the basic and diluted per share computations for net income attributable to HollyFrontier stockholders:

	Three Months Ended March 31,	
	2016	2015
	(In thousands, except per share data)	
Net income attributable to HollyFrontier stockholders	$21,253	$226,876
Participating securities’ share in earnings	216	644
Net income attributable to common shares	$21,037	$226,232
Average number of shares of common stock outstanding	176,737	195,069
Effect of dilutive variable restricted shares and performance share units (1)	47	52
Average number of shares of common stock outstanding assuming dilution	176,784	195,121
Basic earnings per share	$0.12	$1.16

Diluted earnings per share	$0.12	$1.16
(1) Excludes anti-dilutive restricted and performance share units of:	177	412

NOTE 5: Stock-Based Compensation

As of March 31, 2016, 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 $3.2 million and $6.3 million for the three months ended March 31, 2016 and 2015, respectively. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting 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.’s non-employee directors and certain executives and employees. Compensation cost attributable to HEP’s share-based compensation plan was $0.7 million and $0.9 million for the three months ended March 31, 2016 and 2015, respectively.

Restricted Stock and Restricted Stock Units

Under our Long-Term Incentive Compensation Plan, we grant certain officers and other key employees restricted stock and restricted stock unit awards with awards generally vesting over a period of one to three years. Restricted stock award recipients are generally entitled to all the rights of absolute ownership of the restricted shares from the date of grant 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. 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 grant date market price of our common shares and is amortized over the respective vesting period.

A summary of restricted stock and restricted stock unit activity and changes during the three months ended March 31, 2016 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2016 (non-vested)	722,525	$ 48.35	
Granted	5,628	38.26	
Forfeited	(9,168)	48.08	
Outstanding at March 31, 2016 (non-vested)	718,985	$ 47.42	$ 25,395

For the three months ended March 31, 2016, no restricted stock or restricted stock units vested. As of March 31, 2016, there was $20.6 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 1.6 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 “financial performance” and “market performance” criteria. Financial performance is based on our financial performance compared to a peer group of independent refining companies, while market performance is based on the relative standing of total shareholder return achieved by HollyFrontier compared to peer group companies. The number of shares ultimately issued under these awards can range from zero to 200% of target award amounts. As of March 31, 2016, estimated share payouts for outstanding non-vested performance share unit awards averaged approximately 75% of target amounts.

A summary of performance share unit activity and changes during the three months ended March 31, 2016 is presented below:

Performance Share Units	Grants
Outstanding at January 1, 2016 (non-vested)	637,938
Granted	2,861
Forfeited	(144,362)

Outstanding at March 31, 2016 (non-vested)	496,437

As of March 31, 2016, there was $11.8 million of total unrecognized compensation cost related to non-vested performance share units having a grant date fair value of $46.16 per unit. That cost is expected to be recognized over a weighted-average period of 1.9 years.

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

Our investment portfolio at March 31, 2016 consisted of cash and cash equivalents.

We only invest in marketable debt securities with the maximum maturity or put date of any individual issue generally not greater than one year 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 (loss). 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 marketable securities as of December 31, 2015:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
	(In thousands)			
December 31, 2015				
Commercial paper	$22,876	$ 1	$ (2)	$22,875
Corporate debt securities	32,311	—	(41)	32,270
State and political subdivisions debt securities	88,935	6	(67)	88,874
Total marketable securities	$144,122	$ 7	$ (110)	$144,019

No interest income was recognized on our marketable securities for the three months ended March 31, 2016. We recognized interest income of $0.5 million for the three months ended March 31, 2015.

NOTE 7: Inventories

Inventory consists of the following components:

	March 31, 2016	December 31, 2015
	(In thousands)	
Crude oil	$523,754	$ 518,922
Other raw materials and unfinished products(1)	184,804	214,832
Finished products(2)	622,578	603,568
Lower of cost or market reserve	(568,336)	(624,457)
Process chemicals(3)	5,558	4,477
Repair and maintenance supplies and other	123,580	124,527
Total inventory	$891,938	$ 841,869

(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.

Inventories, which are valued at the lower of LIFO cost or market, reflect a valuation reserve of $568.3 million and $624.5 million at March 31, 2016 and December 31, 2015, respectively. The December 31, 2015 market reserve of $624.5 million was reversed due to the sale of inventory quantities that gave rise to the 2015 reserve. A new market reserve of $568.3 million was established as of March 31, 2016 based on market conditions and prices at that time. The effect of the change in lower of cost or market reserve was a $56.1 million and $6.5 million decrease to cost of products sold for the three months ended March 31, 2016 and 2015, respectively.

NOTE 8: Environmental

Environmental costs are charged to operating expenses if they relate to an existing condition caused by past operations and do not contribute to current or future revenue generation. We have ongoing investigations of environmental matters at various locations as part of our assessment process to determine the amount of environmental obligation we may have, if any, with respect to these matters for which we have recorded the estimated cost of the studies. Liabilities are recorded when site restoration and environmental remediation, cleanup and other obligations are either known or considered probable and can be reasonably estimated. Such estimates are undiscounted and require judgment with respect to costs, time frame and extent of required remedial and cleanup activities and are subject to periodic adjustments based on currently available information. Recoveries of environmental costs through insurance, indemnification arrangements or other sources are included in other assets to the extent such recoveries are considered probable.

We expensed $0.9 million and $4.6 million for the three months ended March 31, 2016 and 2015, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $97.0 million and $98.1 million at March 31, 2016 and December 31, 2015, respectively, of which $82.5 million and $83.5 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). The amount of our accrued liability could increase in the future when the results of ongoing investigations become known, are considered probable and can be reasonably estimated.

NOTE 9: Debt

HollyFrontier Credit Agreement

We have a $1 billion senior unsecured revolving credit facility maturing in July 2019 (the “HollyFrontier Credit Agreement”), which may be used for revolving credit loans and letters of credit from time to time and is available to fund general corporate purposes. Indebtedness under the HollyFrontier Credit Agreement is recourse to HollyFrontier. During the three months ended March 31, 2016, we received advances totaling $315.0 million and repaid $315.0 million under the HollyFrontier Credit Agreement. At March 31, 2016, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling $3.3 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement

In March 2016, HEP amended its senior secured revolving credit facility maturing in November 2018 (the “HEP Credit Agreement”), increasing the size of the facility from $850 million to $1.2 billion. The HEP Credit Agreement 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. During the three months ended March 31, 2016, HEP received advances totaling $522.0 million and repaid $469.0 million under the HEP Credit Agreement. At March 31, 2016, HEP was in compliance with all of its covenants, had outstanding borrowings of $765.0 million and no outstanding letters of credit under the HEP Credit Agreement.

HEP’s obligations under the HEP Credit Agreement are collateralized by substantially all of HEP’s assets. 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 recourse to our other assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier Senior Notes

In March 2016, we issued $250 million in aggregate principal amount of 5.875% senior notes (the "HollyFrontier Senior Notes") maturing April 2026. The HollyFrontier Senior Notes are unsecured and unsubordinated obligations of ours and rank equally with all our other existing and future unsecured and unsubordinated indebtedness.

HollyFrontier Financing Obligation

In March 2016, we extinguished a financing obligation at a cost of $39.5 million and recognized an $8.7 million loss on the early termination. The financing obligation related to a sale and lease-back of certain crude oil tankage that we sold to an affiliate of Plains in October 2009 for $40.0 million.

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HollyFrontier Term Loan
On April 28, 2016, we entered into a $350 million senior unsecured term loan (the “HollyFrontier Term Loan”) maturing in April 2019. The HollyFrontier Term Loan is fully drawn and may be used for general corporate purposes. Indebtedness under the HollyFrontier Term Loan is recourse to HollyFrontier, and as of May 4, 2016, we are in compliance with all covenants.

HEP Senior Notes
HEP’s 6.5% senior notes ($300 million aggregate principal amount maturing March 2020) (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 recourse to our other assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

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

	March 31, 2016	December 31, 2015
	(In thousands)	
HollyFrontier 5.875% Senior Notes		
Principal	$250,000	$—
Unamortized discount and debt issuance costs	(3,776)	—
	246,224	—
Financing Obligation	—	31,288
Total HollyFrontier long-term debt	246,224	31,288
HEP Credit Agreement	765,000	712,000
HEP 6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount and debt issuance costs	(3,056)	(3,248)
	296,944	296,752
Total HEP long-term debt	1,061,944	1,008,752
Total long-term debt	$1,308,168	$1,040,040

We capitalized interest attributable to construction projects of $0.7 million and $2.9 million for the three months ended March 31, 2016 and 2015, 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, forward purchase and sales 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.

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Accounting Hedges
We have swap contracts serving as cash flow hedges against price risk on forecasted purchases of natural gas. We also have forward sales and purchase contracts that lock in the prices of future sales and purchases of refined product. Additionally, in 2015, we had swap contracts serving as cash flow hedges against price risk on forecasted purchases of WTI crude oil and forecasted sales of refined product. These contracts have been designated as accounting hedges and are measured 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. 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.

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 and forward sales under hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Gain (Loss) Recognized in Earnings Due to Settlements		Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	
		Location	Amount	Location	Amount
	(In thousands)				
Three Months Ended March 31, 2016					
Change in fair value	$(11,921)	Sales and other revenues	$(4,756)		
Loss reclassified to earnings due to settlements	11,056	Cost of products sold	—		
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(6,570)	Operating expenses	$—
Total	$(595)		$(11,326)		$—
Three Months Ended March 31, 2015					
Change in fair value	$(14,148)	Sales and other revenues	$49,180	Sales and other revenues	$(133)
Gain reclassified to earnings due to settlements	(4,692)	Cost of products sold	(40,769)	Cost of products sold	1,244
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(3,989)	Operating expenses	547
Total	$(18,570)		$4,422		$1,658

As of March 31, 2016, we have the following notional contract volumes related to outstanding derivative instruments serving as cash flow hedges against price risk on forecasted transactions:

Notional Contract Volumes by Year of Maturity

Derivative Instruments	Total Outstanding Notional	2016	2017	Unit of Measure
Natural gas price swaps - long	16,800,000	7,200,000	9,600,000	MMBTU
Forward gasoline and diesel contracts - short	975,000	975,000	—	Barrels

In 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 16,800,000 MMBTU’s to be purchased ratably through 2017. As of March 31, 2016, we have an unrealized loss of $1.9 million classified in accumulated other comprehensive loss that relates to the application of hedge accounting prior to dedesignation that is amortized as a charge to operating expenses as the contracts mature.

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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 purchases of WTI crude oil, and to lock in basis spread differentials on forecasted purchases of crude oil and natural gas. Also, we have NYMEX futures contracts to lock in prices on forecasted purchases of inventory. These contracts are measured 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 March 31, 2016	2015
	(In thousands)	
Cost of products sold	$474	$22,281
Operating expenses	(3,469)	(296)
Total	$(2,995)	$21,985

As of March 31, 2016, 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 2016	2017	Unit of Measure
Crude price swaps (basis spread) - long	8,800,000	8,800,000	—	Barrels
Natural gas price swaps (basis spread) - long	18,039,000	7,731,000	10,308,000	MMBTU
Natural gas price swaps - long	16,800,000	7,200,000	9,600,000	MMBTU
Natural gas price swaps - short	16,800,000	7,200,000	9,600,000	MMBTU
NYMEX futures (WTI) - short	910,000	910,000	—	Barrels
Forward gasoline and diesel contracts - long	1,175,000	1,175,000	—	Barrels

Interest Rate Risk Management

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

As of March 31, 2016, HEP had two interest rate swap contracts with identical terms that hedge its exposure to the cash flow risk caused by the effects of LIBOR changes on $150.0 million in credit agreement advances. The swaps 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 2.25% as of March 31, 2016, which equaled an effective interest rate of 2.99%. Both of these swap contracts mature in July 2017 and have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

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 hedge accounting:

	Unrealized Gain (Loss) Recognized in OCI	Loss Recognized in Earnings Due to Settlements	
		Location	Amount
	(In thousands)		
Three Months Ended March 31, 2016			
Interest rate swaps			
Change in fair value	$(683)		
Loss reclassified to earnings due to settlements	230	Interest expense	$(230)
Total	$(453)		$(230)
Three Months Ended March 31, 2015			
Interest rate swaps			
Change in fair value	$(1,280)		
Loss reclassified to earnings due to settlements	531	Interest expense	$(531)
Total	$(749)		$(531)

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

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
	(In thousands)					
March 31, 2016						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$ —	$35,810	$—	$ 35,810
Forward contracts	—	—	—	2,587	—	2,587
Interest rate swap contracts	—	—	—	263	—	263
	$—	$—	$ —	$38,660	$—	$ 38,660
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$ —	$55,505	$(33,639)	$ 21,866
NYMEX futures contracts	—	—	—	768	—	768

Forward contracts	4,197	—	4,197		4,360	—	4,360
	$4,197	$—	$ 4,197		$60,633	$(33,639)	$ 26,994
Total net balance			$ 4,197				$ 65,654
Balance sheet classification:				Accrued liabilities			$ 45,911
	Prepayment and other		$ 4,197	Other long-term liabilities			19,743
			$ 4,197				$ 65,654

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	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
	(In thousands)					
December 31, 2015						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$ —	$38,755	$—	$ 38,755
Interest rate swap contracts	304	—	304	114	—	114
	$304	$—	$ 304	$38,869	$—	$ 38,869
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$ —	$60,196	$(37,118)	$ 23,078
NYMEX futures contracts	3,469	—	3,469	—	—	—
	$3,469	$—	$ 3,469	$60,196	$(37,118)	$ 23,078
Total net balance			$ 3,773			$ 61,947
Balance sheet classification:	Prepayment and other		$ 3,469	Accrued liabilities		$ 36,976
	Intangibles and other		304	Other long-term liabilities		24,971
			$ 3,773			$ 61,947

At March 31, 2016, we had a pre-tax net unrealized loss of $41.7 million classified in accumulated other comprehensive loss that relates to all accounting hedges having contractual maturities through 2017. Assuming commodity prices and interest rates remain unchanged, an unrealized loss of $26.4 million will be effectively transferred from accumulated other comprehensive loss into the statement of income as the hedging instruments contractually mature over the next twelve-month period.

NOTE 11: Equity

Changes to equity during the three months ended March 31, 2016 are presented below:

	HollyFrontier Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2015	$5,253,415	$ 556,358	$5,809,773
Net income	21,253	22,137	43,390

Dividends	(58,402)	—	(58,402)
Distributions to noncontrolling interest holders	—	(21,731)	(21,731)
Other comprehensive loss, net of tax	(411)	(275)	(686)
Equity-based compensation	2,575	651	3,226
Tax attributable to equity-based compensation	(2,225)	—	(2,225)
Purchase of treasury stock	(129,381)	—	(129,381)
Purchase of HEP units for restricted grants	—	(784)	(784)
Other	—	18	18
Balance at March 31, 2016	$5,086,824	$ 556,374	$5,643,198

In May 2015, our Board of Directors approved a $1 billion share repurchase program, which replaced all existing share repurchase programs, authorizing 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 and corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of March 31, 2016, we had remaining authorization to repurchase up to $178.8 million under this stock repurchase program. In addition, we are authorized by our Board of Directors to repurchase shares in an amount sufficient to offset shares issued under our compensation programs.

NOTE 12: Other Comprehensive Income (Loss)

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

	Before-Tax	Tax Expense (Benefit)	After-Tax
	(In thousands)		
Three Months Ended March 31, 2016			
Net unrealized gain on marketable securities	$101	$40	$61
Net unrealized loss on hedging instruments	(1,048)	(301)	(747)
Other comprehensive loss	(947)	(261)	(686)
Less other comprehensive loss attributable to noncontrolling interest	(275)	—	(275)
Other comprehensive loss attributable to HollyFrontier stockholders	$(672)	$(261)	$(411)
Three Months Ended March 31, 2015			
Net unrealized gain on marketable securities	$68	$27	$41
Net unrealized loss on hedging instruments	(19,319)	(7,302)	(12,017)
Other comprehensive loss	(19,251)	(7,275)	(11,976)
Less other comprehensive loss attributable to noncontrolling interest	(454)	—	(454)
Other comprehensive loss attributable to HollyFrontier stockholders	$(18,797)	$(7,275)	$(11,522)

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		Income Statement Line Item
	(In thousands)		
	Three Months Ended March 31,		
	2016	2015	
Marketable securities	$(23)	$(2)	Interest income
	—	42	Gain on sale of assets
	(23)	40	

	(9)	15	Income tax expense (benefit)
	(14)	25	Net of tax
Hedging instruments:			
Commodity price swaps	(4,756)	49,180	Sales and other revenues
	—	(40,769)	Cost of products sold
	(6,570)	(3,989)	Operating expenses
Interest rate swaps	(230)	(531)	Interest expense
	(11,556)	3,891	
	(4,418)	1,630	Income tax expense (benefit)
	(7,138)	2,261	Net of tax
	139	322	Noncontrolling interest
	(6,999)	2,583	Net of tax and noncontrolling interest
Total reclassifications for the period	$(7,013)	$2,608	

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(Unaudited) Continued

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

	March 31, 2016	December 31, 2015
	(In thousands)	
Unrealized gain on post-retirement benefit obligations	$20,737	$ 20,737
Unrealized loss on marketable securities	—	(61)
Unrealized loss on hedging instruments, net of noncontrolling interest	(25,303)	(24,831)
Accumulated other comprehensive loss	$(4,566)	$ (4,155)

NOTE 13: Post-retirement Plans

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

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Service cost – benefit earned during the period	$324	$424
Interest cost on projected benefit obligations	197	205
Amortization of prior service credit	(871)	(871)
Amortization of net loss	—	46
Net periodic post-retirement credit	$(350)	$(196)

NOTE 14: Contingencies

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

NOTE 15: Segment Information

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

The Refining segment represents the operations of the El Dorado, Tulsa, Navajo, Cheyenne and Woods Cross Refineries and HFC Asphalt (aggregated as a reportable segment). Refining activities involve the purchase and refining of crude oil and wholesale and branded marketing of refined products, such as gasoline, diesel fuel and jet fuel. These petroleum products are primarily marketed in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. Additionally, the Refining segment includes specialty lubricant products produced at our Tulsa Refineries that are marketed throughout North America and are distributed in Central and South America. HFC Asphalt operates various asphalt terminals in Arizona, New Mexico and Oklahoma.

The HEP segment includes all of the operations of HEP, which owns and operates logistics and refinery assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and processing units in the Mid-Continent, Southwest and Rocky Mountain regions of the United States. The HEP segment also includes a 75% ownership interest in UNEV (a consolidated subsidiary of HEP); a 50% ownership interest in each of the Frontier Pipeline and the Osage Pipeline and a 25% ownership interest in the SLC Pipeline, respectively. 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. Due to certain basis differences, 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, 2015.

	Refining	HEP (1)	Corporate and Other	Consolidations and Eliminations	Consolidated Total
	(In thousands)				
Three Months Ended March 31, 2016					
Sales and other revenues	$1,999,587	$102,010	$110	$(82,983)	$2,018,724
Depreciation and amortization	$68,878	$16,029	$3,180	$(207)	$87,880
Income (loss) from operations	$55,000	$56,067	$(26,855)	$(614)	$83,598
Capital expenditures	$129,018	$17,873	$2,682	$—	$149,573
Three Months Ended March 31, 2015					
Sales and other revenues	$2,989,280	$89,756	$218	$(72,628)	$3,006,626
Depreciation and amortization	$63,275	$14,290	$2,654	$(207)	$80,012
Income (loss) from operations	$373,901	$44,210	$(28,949)	$(540)	$388,622
Capital expenditures	$116,467	$51,727	$4,425	$—	$172,619
March 31, 2016					
Cash, cash equivalents and total investments in marketable securities	$13,726	$9,034	$88,261	$—	$111,021
Total assets	$7,053,257	$1,607,600	$225,375	$(291,945)	$8,594,287
Long-term debt	$—	$1,061,944	$246,224	$—	$1,308,168
December 31, 2015					
Cash, cash equivalents and total investments in marketable securities	$91	$15,013	$195,448	$—	$210,552
Total assets	$6,831,235	$1,578,399	$289,225	$(310,560)	$8,388,299
Long-term debt	$—	$1,008,752	$31,288	$—	$1,040,040

(1) HEP acquired the crude oil tanks at our Tulsa Refineries in March 2016. As a result, we have recast our 2015 HEP segment information to include these assets and related capital expenditures that were previously presented under the Refining segment.

HEP segment revenues from external customers were $19.2 million and $17.5 million for the three months ended March 31, 2016 and 2015, respectively.

NOTE 16: Additional Financial Information

Borrowings pursuant to the HollyFrontier Credit Agreement are recourse to HollyFrontier, but not HEP. Furthermore, borrowings under the HEP Credit Agreement are recourse to HEP, but not to the assets of HFC with the exception of HEP Logistics Holdings, L.P., HEP's general partner. Other than its investment in HEP, the assets of the general partner are insignificant.

The following condensed financial information is provided for HollyFrontier Corporation (on a standalone basis, before consolidation of HEP), and for HEP and its consolidated subsidiaries (on a standalone basis, exclusive of HFC). Due to certain basis differences, our reported amounts for HEP may not agree to amounts reported in HEP's periodic public filings.

HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

March 31, 2016	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	$ 101,987	$ 9,034	$ —	$ 111,021
Accounts receivable, net	429,153	41,055	(39,294)	430,914
Inventories	889,816	2,122	—	891,938
Income tax receivable	32,813	—	—	32,813
Prepayments and other	31,176	3,059	(1,651)	32,584
Total current assets	1,484,945	55,270	(40,945)	1,499,270
Properties, plants and equipment, net	3,345,759	1,092,443	(241,945)	4,196,257
Intangibles and other assets	2,438,585	459,887	288	2,898,760
Total assets	$ 7,269,289	$ 1,607,600	$ (282,602)	$ 8,594,287
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$ 752,085	$ 18,480	$ (39,294)	$ 731,271
Accrued liabilities	139,914	16,074	(1,651)	154,337
Total current liabilities	891,999	34,554	(40,945)	885,608
Long-term debt	246,224	1,061,944	—	1,308,168
Liability to HEP	217,987	—	(217,987)	—
Deferred income tax liabilities	543,850	458	—	544,308
Other long-term liabilities	158,479	55,381	(855)	213,005
Investment in HEP	125,673	—	(125,673)	—
Equity – HollyFrontier	5,085,077	359,023	(357,276)	5,086,824
Equity – noncontrolling interest	—	96,240	460,134	556,374
Total liabilities and equity	$ 7,269,289	$ 1,607,600	$ (282,602)	$ 8,594,287

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

December 31, 2015	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations		Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$ 51,520	$ 15,013	$ —		$ 66,533
Marketable securities	144,019	—	—		144,019
Accounts receivable, net	355,020	41,075	(44,117	)	351,978
Inventories	839,897	1,972	—		841,869
Prepayments and other	48,288	3,082	(7,704	)	43,666
Total current assets	1,438,744	61,142	(51,821	)	1,448,065
Properties, plants and equipment, net	3,261,494	1,099,683	(245,515	)	4,115,662
Intangibles and other assets	2,410,879	417,574	(3,881	)	2,824,572
Total assets	$ 7,111,117	$ 1,578,399	$ (301,217	)	$ 8,388,299
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$ 738,024	$ 22,583	$ (44,117	)	$ 716,490
Income taxes payable	8,142	—	—		8,142
Accrued liabilities	117,346	26,341	(7,704	)	135,983
Total current liabilities	863,512	48,924	(51,821	)	860,615
Long-term debt	31,288	1,008,752	—		1,040,040
Liability to HEP	220,998	—	(220,998	)	—
Deferred income tax liabilities	497,475	431	—		497,906
Other long-term liabilities	125,614	59,376	(5,025	)	179,965
Investment in HEP	120,721	—	(120,721	)	—
Equity – HollyFrontier	5,251,509	366,487	(364,581	)	5,253,415
Equity – noncontrolling interest	—	94,429	461,929		556,358
Total liabilities and equity	$ 7,111,117	$ 1,578,399	$ (301,217	)	$ 8,388,299

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended March 31, 2016	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)			
Sales and other revenues	$ 1,999,697	$ 102,010	$ (82,983)	$ 2,018,724
Operating costs and expenses:				
Cost of products sold	1,703,068	—	(77,905)	1,625,163
Lower of cost or market inventory valuation adjustment	(56,121)	—	—	(56,121)
Operating expenses	230,017	26,823	(4,257)	252,583
General and administrative	22,530	3,091	—	25,621
Depreciation and amortization	75,421	16,029	(3,570)	87,880
Total operating costs and expenses	1,974,915	45,943	(85,732)	1,935,126
Income from operations	24,782	56,067	2,749	83,598
Other income (expense):				
Earnings of equity method investments	25,797	2,765	(25,797)	2,765
Interest income (expense)	708	(10,423)	(2,297)	(12,012)
Loss on early extinguishment of debt	(8,718)	—	—	(8,718)
Gain (loss) on sale of assets and other	73	(8)	—	65
	17,860	(7,666)	(28,094)	(17,900)
Income before income taxes	42,642	48,401	(25,345)	65,698
Income tax provision	22,212	96	—	22,308
Net income	20,430	48,305	(25,345)	43,390
Less net income (loss) attributable to noncontrolling interest	(7)	4,927	17,217	22,137
Net income attributable to HollyFrontier stockholders	$ 20,437	$ 43,378	$ (42,562)	$ 21,253
Comprehensive income attributable to HollyFrontier stockholders	$ 20,026	$ 43,200	$ (42,384)	$ 20,842

Condensed Consolidating Statement of Income and Comprehensive Income

Three Months Ended March 31, 2015	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)			
Sales and other revenues	$ 2,989,498	$ 89,756	$ (72,628)	$ 3,006,626
Operating costs and expenses:				
Cost of products sold	2,322,881	—	(71,508)	2,251,373

Lower of cost or market inventory valuation adjustment	(6,546)	—	—	(6,546)
Operating expenses	236,003	27,966	(373)	263,596
General and administrative	26,279	3,290	—	29,569
Depreciation and amortization	69,258	14,290	(3,536)	80,012
Total operating costs and expenses	2,647,875	45,546	(75,417)	2,618,004
Income from operations	341,623	44,210	2,789	388,622
Other income (expense):				
Earnings (loss) of equity method investments	11,901	734	(20,442)	(7,807)
Interest income (expense)	1,922	(8,767)	(2,347)	(9,192)
Gain on sale of assets and other	608	158	—	766
	14,431	(7,875)	(22,789)	(16,233)
Income before income taxes	356,054	36,335	(20,000)	372,389
Income tax provision	129,627	101	—	129,728
Net income	226,427	36,234	(20,000)	242,661
Less net income (loss) attributable to noncontrolling interest	(7)	4,027	11,765	15,785
Net income attributable to HollyFrontier stockholders	$ 226,434	$ 32,207	$ (31,765)	$ 226,876
Comprehensive income attributable to HollyFrontier stockholders	$ 214,912	$ 31,912	$ (31,470)	$ 215,354

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HOLLYFRONTIER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2016	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities	$ (8,257)	$ 39,372	$ (24,479)	$ 6,636
Cash flows from investing activities				
Additions to properties, plants and equipment	(131,700)	—	—	(131,700)
Additions to properties, plants and equipment – HEP	—	(17,873)	—	(17,873)
Proceeds from sale of assets	258	—	—	258
Purchases of marketable securities	(4,082)	—	—	(4,082)
Sales and maturities of marketable securities	148,204	—	—	148,204
	12,680	(17,873)	—	(5,193)
Cash flows from financing activities				
Net borrowings under credit agreements	—	53,000	—	53,000
Net proceeds from issuance of senior notes	246,690	—	—	246,690
Inventory repurchase obligation	693	—	—	693
Purchase of treasury stock	(133,430)	—	—	(133,430)
Dividends	(58,602)	—	—	(58,602)
Distributions to noncontrolling interest	—	(46,210)	24,479	(21,731)
Repayment of financing obligation	—	(39,500)	—	(39,500)
Contribution from general partner	(9,122)	9,122	—	—
Other, net	(185)	(3,890)	—	(4,075)
	46,044	(27,478)	24,479	43,045
Cash and cash equivalents				
Increase (decrease) for the period	50,467	(5,979)	—	44,488
Beginning of period	51,520	15,013	—	66,533
End of period	$ 101,987	$ 9,034	$ —	$ 111,021

Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2015	HollyFrontier Corp. Before Consolidation of HEP	Non-Guarantor Non-Restricted Subsidiaries (HEP Segment)	Consolidations and Eliminations	Consolidated
	(In thousands)			
Cash flows from operating activities	$ 207,509	$		