HollyFrontier Corp
Form 10-Q
November 05, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014
OR

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

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

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

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

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

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
195,735,991 shares of Common Stock, par value $.01 per share, were outstanding on October 31, 2014.

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FORWARD-LOOKING STATEMENTS

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

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

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

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. This summary discussion should be read in conjunction with the discussion of the known material risk factors and other cautionary statements under the heading "Risk Factors" included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 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.

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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.

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

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

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

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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents (HEP: $1,667 and $6,352, respectively)	$856,026	$940,103
Marketable securities	623,480	725,160
Total cash, cash equivalents and short-term marketable securities	1,479,506	1,665,263
Accounts receivable: Product and transportation (HEP: $35,972 and $34,736, respectively)	627,846	665,098
Crude oil resales	62,405	43,704
	690,251	708,802
Inventories: Crude oil and refined products	1,491,318	1,241,448
Materials, supplies and other (HEP: $1,793 and $1,591, respectively)	88,147	112,799
	1,579,465	1,354,247
Income taxes receivable	32,888	109,376
Prepayments and other (HEP: $2,626 and $2,283, respectively)	111,623	58,756
Total current assets	3,893,733	3,896,444
Properties, plants and equipment, at cost (HEP: $1,252,071 and $1,199,594, respectively)	4,680,470	4,343,857
Less accumulated depreciation (HEP: $(235,848) and $(194,619), respectively)	(1,120,205)	(949,261)
	3,560,265	3,394,596
Other assets: Turnaround costs	217,796	258,436
Goodwill (HEP: $288,991 and $288,991, respectively)	2,331,781	2,331,922
Intangibles and other (HEP: $71,508 and $74,979, respectively)	178,195	175,341
	2,727,772	2,765,699
Total assets	$10,181,770	$10,056,739
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (HEP: $15,084 and $22,898, respectively)	$1,441,115	$1,325,376
Accrued liabilities (HEP: $25,426 and $28,668, respectively)	122,933	125,115
Deferred income tax liabilities	222,701	223,999
Total current liabilities	1,786,749	1,674,490
Long-term debt (HEP: $851,416 and $807,630, respectively)	1,039,396	997,519
Deferred income taxes (HEP: $5,311 and $5,287, respectively)	659,666	616,842
Other long-term liabilities (HEP: $39,446 and $35,918, respectively)	135,111	158,490
Equity:		
HollyFrontier stockholders' equity:		
Preferred stock, $1.00 par value – 5,000,000 shares authorized; none issued	—	—
Common stock $.01 par value – 320,000,000 shares authorized; 255,962,866 shares issued as of September 30, 2014 and December 31, 2013	2,560	2,560

Additional capital	4,011,375	3,990,630
Retained earnings	3,162,173	3,144,480
Accumulated other comprehensive income	70,011	822
Common stock held in treasury, at cost – 59,764,477 and 57,132,515 shares as of September 30, 2014 and December 31, 2013, respectively	(1,271,962)	(1,138,872)
Total HollyFrontier stockholders' equity	5,974,157	5,999,620
Noncontrolling interest	586,691	609,778
Total equity	6,560,848	6,609,398
Total liabilities and equity	$10,181,770	$10,056,739

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. ("HEP") as of September 30, 2014 and December 31, 2013. 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales and other revenues	$5,317,555	$5,327,122	$15,481,208	$15,333,759
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization)	4,625,893	4,809,990	13,439,359	13,059,333
Operating expenses (exclusive of depreciation and amortization)	280,957	256,318	826,577	798,959
General and administrative expenses (exclusive of depreciation and amortization)	27,149	28,937	82,437	92,135
Depreciation and amortization	80,945	82,127	262,883	224,381
Total operating costs and expenses	5,014,944	5,177,372	14,611,256	14,174,808
Income from operations	302,611	149,750	869,952	1,158,951
Other income (expense):				
Earnings (loss) of equity method investments	(1,247)	159	(2,956)	(871)
Interest income	1,004	1,482	3,593	3,791
Interest expense	(11,038)	(13,954)	(33,521)	(55,068)
Loss on early extinguishment of debt	—	—	(7,677)	(22,109)
Loss on sale of assets	(556)	—	(556)	—
	(11,837)	(12,313)	(41,117)	(74,257)
Income before income taxes	290,774	137,437	828,835	1,084,694
Income tax provision:				
Current	91,867	(10,454)	294,331	339,612
Deferred	11,349	58,982	(2,169)	47,053
	103,216	48,528	292,162	386,665
Net income	187,558	88,909	536,673	698,029
Less net income attributable to noncontrolling interest	12,552	6,619	33,177	25,089
Net income attributable to HollyFrontier stockholders	$175,006	$82,290	$503,496	$672,940
Earnings per share attributable to HollyFrontier stockholders:				
Basic	$0.88	$0.41	$2.54	$3.33
Diluted	$0.88	$0.41	$2.53	$3.33
Cash dividends declared per common share	$0.82	$0.80	$2.44	$2.40
Average number of common shares outstanding:				
Basic	197,261	199,098	197,895	201,109
Diluted	197,535	199,509	198,096	201,486

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$187,558	$88,909	$536,673	$698,029
Other comprehensive income:				
Securities available-for-sale:				
Unrealized gain (loss) on marketable securities	(153)	44	(116)	18
Reclassification adjustments to net income on sale or maturity of marketable securities	(12)	(10)	(13)	(13)
Net unrealized gain (loss) on marketable securities	(165)	34	(129)	5
Hedging instruments:				
Change in fair value of cash flow hedging instruments	5,133	25,423	143,857	42,739
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(13,844)	(21,478)	(31,710)	153
Amortization of unrealized loss attributable to discontinued cash flow hedges	270	270	810	1,479
Net unrealized gain (loss) on hedging instruments	(8,441)	4,215	112,957	44,371
Pension and other post-retirement benefit obligations:				
Pension plan loss reclassified to net income	—	—	—	28,986
Loss on post-retirement healthcare plan	—	—	(89)	—
Post-retirement healthcare plan loss reclassified to net income	—	—	—	1,726
Retirement restoration plan loss reclassified to net income	422	—	422	—
Net change in pension and other post-retirement benefit obligations	422	—	333	30,712
Other comprehensive income (loss) before income taxes	(8,184)	4,249	113,161	75,088
Income tax expense (benefit)	(3,428)	1,946	43,694	28,421
Other comprehensive income (loss)	(4,756)	2,303	69,467	46,667
Total comprehensive income	182,802	91,212	606,140	744,696
Less noncontrolling interest in comprehensive income	13,225	5,954	33,455	27,156
Comprehensive income attributable to HollyFrontier stockholders	$169,577	$85,258	$572,685	$717,540

See accompanying notes.

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$536,673	$698,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	262,883	224,381
Net loss of equity method investments, inclusive of distributions	5,268	3,184
Loss on early extinguishment of debt attributable to unamortized discount	1,489	7,948
Loss on sale of assets	556	—
Deferred income taxes	(2,169)	47,053
Equity-based compensation expense	20,728	25,239
Change in fair value – derivative instruments	(12,199)	(39,745)
(Increase) decrease in current assets:		
Accounts receivable	8,530	(110,402)
Inventories	(225,698)	(228,541)
Income taxes receivable	76,488	670
Prepayments and other	24,719	18,983
Increase (decrease) in current liabilities:		
Accounts payable	109,912	298,916
Accrued liabilities	27,327	(7,888)
Turnaround expenditures	(32,236)	(170,468)
Other, net	3,662	34,804
Net cash provided by operating activities	805,933	802,163
Cash flows from investing activities:		
Additions to properties, plants and equipment	(307,476)	(255,090)
Additions to properties, plants and equipment – HEP	(61,657)	(31,099)
Proceeds from sale of assets	14,711	5,802
Acquisition of trucking operations	—	(11,301)
Investment in Sabine Biofuels	(5,000)	(3,000)
Net repayment from (advances to) Sabine Biofuels	10,021	(11,040)
Purchases of marketable securities	(762,224)	(672,701)
Sales and maturities of marketable securities	863,769	646,301
Net cash used for investing activities	(247,856)	(332,128)
Cash flows from financing activities:		
Borrowings under credit agreement – HEP	538,600	256,500
Repayments under credit agreement – HEP	(346,600)	(312,500)
Redemption of senior notes	—	(300,973)
Redemption of senior notes – HEP	(156,188)	—
Proceeds from sale of HEP common units	—	73,444
Proceeds from common unit offerings - HEP	—	73,444
Purchase of treasury stock	(133,150)	(184,947)
Dividends	(485,766)	(485,411)

Distributions to noncontrolling interest	(58,473)	(52,835)
Excess tax benefit from equity-based compensation	4,482	2,739
Purchase of units for incentive grants – HEP	(1,064)	(3,379)
Deferred financing costs and other	(3,995)	668
Net cash used for financing activities	(642,154)	(933,250)
Cash and cash equivalents:		
Decrease for the period	(84,077)	(463,215)
Beginning of period	940,103	1,757,699
End of period	$856,026	$1,294,484
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$45,672	$67,822
Income taxes	$222,488	$336,588

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 September 30, 2014, 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, New Mexico and Oklahoma;
- owned 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"), which owns a 95-mile intrastate pipeline system that serves refineries in the Salt Lake City area.

We have prepared these consolidated financial statements without audit. In management's opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of September 30, 2014, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2014 and 2013 and consolidated cash flows for the nine months ended September 30, 2014 and 2013 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, 2013 that has been filed with the SEC.

Our results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the results of operations to be realized for the year ending December 31, 2014.

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 $2.4 million at September 30, 2014 and December 31, 2013.

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: 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.

We performed our annual goodwill impairment testing as of July 1, 2014, which entailed an assessment of our reporting unit fair values relative to their respective carrying values that were derived using a combination of both income and market approaches. Our income approach utilizes the discounted future expected cash flows and has an 80% weighting. Our market approach, which includes both the guideline public company and guideline transaction methods each having a 10% weighting, utilizes pricing multiples derived from historical market transactions of other like-kind assets. Our discounted cash flows reflect estimates of future cash flows based on both historical and forward crack-spreads, forecasted production levels, operating costs and capital expenditures. Our goodwill is allocated by reporting unit as follows: El Dorado, $1.7 billion; Cheyenne, $0.3 billion; and HEP, $0.3 billion. Based on our testing as of July 1, 2014, the fair value of our Cheyenne reporting unit exceeded its carrying cost by slightly less than 20%, and the fair value of our El Dorado and HEP reporting units exceeded their respective carrying values by a much larger percentage. As of September 30, 2014, 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 reasonably possible that at some future downturn in refining operations that the goodwill related to our Cheyenne Refinery will be determined to be impaired.

During the third quarter of 2014, we recorded an insignificant reduction to goodwill due to the sale of certain business assets.

New Accounting Pronouncements

Revenue Recognition
In May 2014, an accounting standard update (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 is effective January 1, 2017, and we are evaluating the impact of this standard.

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 September 30, 2014, 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. 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.

HEP has two primary customers (including us) and generates revenues by charging tariffs for transporting petroleum products and crude oil though its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 84% of HEP’s total revenues for the nine months ended September 30, 2014. 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.

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 September 30, 2014, these agreements result in minimum annualized payments to HEP of $236.2 million.

Our transactions with HEP including fees paid under our transportation agreements with HEP and UNEV 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.

Sabine Biofuels

We have a 50% ownership interest in Sabine Biofuels, an unconsolidated VIE. This investment, accounted for using the equity method of accounting, had a carrying amount of $8.4 million at September 30, 2014 and is classified as a noncurrent asset under “Intangibles and other” in our consolidated balance sheets.

NOTE 3: Financial Instruments

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

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

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

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The carrying amounts and estimated fair values of our investments in marketable securities, derivative instruments and senior notes at September 30, 2014 and December 31, 2013 were as follows:

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level Level 1	Level 2	Level 3
	(In thousands)				
September 30, 2014					
Assets:					
Marketable securities	$623,480	$623,480	$—	$623,480	$—
NYMEX futures contracts	1,848	1,848	1,848	—	—
Commodity price swaps	132,610	132,610	—	15,389	117,221
HEP interest rate swaps	1,545	1,545	—	1,545	—
Total assets	$759,483	$759,483	$1,848	$640,414	$117,221
Liabilities:					
Commodity price swaps	$59,800	$59,800	$—	$58,489	$1,311
HollyFrontier senior notes	154,377	155,250	—	155,250	—
HEP senior notes	296,416	309,000	—	309,000	—
HEP interest rate swaps	1,231	1,231	—	1,231	—
Total liabilities	$511,824	$525,281	$—	$523,970	$1,311

Financial Instrument	Carrying Amount	Fair Value	Fair Value by Input Level Level 1	Level 2	Level 3
	(In thousands)				
December 31, 2013					
Assets:					
Marketable securities	$725,160	$725,160	$—	$725,160	$—
Commodity price swaps	43,284	43,284	—	36,312	6,972
HEP interest rate swaps	1,670	1,670	—	1,670	—
Total assets	$770,114	$770,114	$—	$763,142	$6,972
Liabilities:					
NYMEX futures contracts	$3,569	$3,569	$3,569	$—	$—
Commodity price swaps	83,349	83,349	—	41,059	42,290
HollyFrontier senior notes	155,054	161,250	—	161,250	—
HEP senior notes	444,630	471,750	—	471,750	—
HEP interest rate swaps	1,814	1,814	—	1,814	—
Total liabilities	$688,416	$721,732	$3,569	$675,873	$42,290

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 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 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.

Level 3 Financial Instruments

We have commodity price swap contracts that relate to forecasted sales of diesel and unleaded gasoline and forecasted purchases of WCS 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 our Level 3 assets and liabilities (all related to derivative instruments) for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Level 3 Financial Instruments	2014	2013	2014	2013
	(In thousands)			
Asset (liability) balance at beginning of period	$(75,637)	$37,126	$(35,318)	$(33,658)
Change in fair value:				
Recognized in other comprehensive income	178,511	(9,956)	65,816	(8,542)
Recognized in cost of products sold	11,085	(17,194)	12,970	30,027
Settlement date fair value of contractual maturities:				
Recognized in sales and other revenues	6,202	10,138	80,476	25,454
Recognized in cost of products sold	(4,251)	(8,460)	(8,034)	(1,627)
Asset balance at end of period	$115,910	$11,654	$115,910	$11,654

A hypothetical change of 10% to the estimated future cash flows attributable to our Level 3 commodity price swaps would result in an estimated fair value change of $11.6 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 restricted shares and performance share units. The following is a reconciliation of the components of the basic and diluted per share computations for net income attributable to HollyFrontier stockholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income attributable to HollyFrontier stockholders	$175,006	$82,290	$503,496	$672,940
Participating securities' share in earnings	471	285	1,416	2,447
Net income attributable to common shares	$174,535	$82,005	$502,080	$670,493
Average number of shares of common stock outstanding	197,261	199,098	197,895	201,109
Effect of dilutive variable restricted shares and performance share units [(1)]	274	411	201	377
	197,535	199,509	198,096	201,486

Average number of shares of common stock outstanding assuming dilution				
Basic earnings per share	$0.88	$0.41	$2.54	$3.33
Diluted earnings per share	$0.88	$0.41	$2.53	$3.33
(1) Excludes anti-dilutive restricted and performance share units of:	195	251	214	1

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NOTE 5: Stock-Based Compensation

As of September 30, 2014, 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 $6.0 million and $7.3 million for the three months ended September 30, 2014 and 2013, respectively, and $18.2 million and $22.6 million for the nine months ended September 30, 2014 and 2013, 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 $0.8 million and $0.7 million for the three months ended September 30, 2014 and 2013, respectively, and $2.5 million and $2.6 million for the nine months ended September 30, 2014 and 2013, 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 nine months ended September 30, 2014 is presented below:

Restricted Stock and Restricted Stock Units	Grants	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2014 (non-vested)	737,562	$39.54	
Granted	73,395	48.20	
Vesting (transfer/conversion to common stock)	(103,586)	33.71	
Forfeited	(73,940)	42.23	
Outstanding at September 30, 2014 (non-vested)	633,431	$41.18	$27,668

For the nine months ended September 30, 2014, 103,586 restricted stock and restricted stock units vested having a grant date fair value of $3.5 million. As of September 30, 2014, there was $9.4 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 1.0 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 both a “financial performance” and “market performance” criteria. Financial performance is based on our financial performance compared to an equally-weighted peer group of independent refining companies, while market performance is based on total shareholder return achieved by HollyFrontier stockholders compared with the average shareholder return achieved by shareholders of peer group companies. The number of shares ultimately issued under these awards can range from zero to 200%. As of September 30, 2014, estimated share payouts for outstanding non-vested performance share unit awards averaged approximately 70% of the initial target award.

A summary of performance share unit activity and changes during the nine months ended September 30, 2014 is presented below:

Performance Share Units	Grants	
Outstanding at January 1, 2014 (non-vested)	983,610	
Granted	26,493	
Vesting and transfer of ownership to recipients	(181,290	)
Forfeited	(109,517	)
Outstanding at September 30, 2014 (non-vested)	719,296	

For the nine months ended September 30, 2014, we issued 172,231 shares of our common stock, representing a 95% payout on vested performance shares units having a grant date fair value of $5.9 million. Based on the weighted-average grant date fair value of $40.55 per share, there was $13.9 million of total unrecognized compensation cost related to non-vested performance share units as of September 30, 2014. That cost is expected to be recognized over a weighted-average period of 1.2 years.

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

Our investment portfolio at September 30, 2014 consisted of cash, cash equivalents and investments in marketable securities.

We currently 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. 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

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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:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value (Net Carrying Amount)
	(In thousands)			
September 30, 2014				
Certificates of deposit	$96,403	$14	$(5)	$96,412
Commercial paper	76,331	16	—	76,347
Corporate debt securities	147,039	10	(50)	146,999
State and political subdivisions debt securities	303,824	14	(116)	303,722
Total marketable securities	$623,597	$54	$(171)	$623,480
December 31, 2013				
Certificates of deposit	$74,802	$21	$(1)	$74,822
Commercial paper	78,216	28	—	78,244
Corporate debt securities	96,889	6	(44)	96,851
State and political subdivisions debt securities	475,235	49	(41)	475,243
Total marketable securities	$725,142	$104	$(86)	$725,160

Interest income recognized on our marketable securities was $0.5 million for both the three months ended September 30, 2014 and 2013, respectively, and $1.7 million and $1.6 million for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 7: Inventories

Inventory consists of the following components:

	September 30, 2014	December 31, 2013
	(In thousands)	
Crude oil	$615,245	$567,281
Other raw materials and unfinished products[1]	183,395	154,534
Finished products[2]	692,678	519,633
Process chemicals[3]	3,858	3,504
Repair and maintenance supplies and other	84,289	109,295
Total inventory	$1,579,465	$1,354,247

(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 zero and $1.1 million for the three months ended September 30, 2014 and 2013, respectively, and $1.3 million and $1.9 million, for the nine months ended September 30, 2014 and 2013, respectively, for environmental remediation obligations. The accrued environmental liability reflected in our consolidated balance sheets was $81.0 million and $87.8 million at September 30, 2014 and December 31, 2013, respectively, of which $67.5 million and $73.6 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
On July 1, 2014, we entered into a new $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. We contemporaneously terminated our previous $1 billion senior secured revolving credit agreement. The HollyFrontier Credit Agreement is available to fund general corporate purposes. Indebtedness under the HollyFrontier Credit Agreement is recourse to HollyFrontier and guaranteed by certain of our wholly-owned subsidiaries. At September 30, 2014, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling $4.7 million under the HollyFrontier Credit Agreement.

HEP Credit Agreement
HEP has a $650 million senior secured revolving credit facility that matures in November 2018 (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. At September 30, 2014, HEP was in compliance with all of its covenants, had outstanding borrowings of $555.0 million and no outstanding letters of credit under the HEP Credit Agreement.

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

At any time, following notice to the trustee, that 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 are not subject to many of the foregoing covenants (a "Covenant Suspension"). As of September 30, 2014, the HollyFrontier Senior Notes were rated investment grade by both Standard & Poor's (BBB-) and Moody's (Baa3). As a result, we are under the Covenant Suspension pursuant to the terms of the indenture governing 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 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.

In March 2014, HEP redeemed its $150.0 million aggregate principal amount of 8.25% senior notes maturing March 2018 at a redemption cost of $156.2 million, at which time HEP recognized a $7.7 million early extinguishment loss consisting of a $6.2 million debt redemption premium and unamortized discount and financing costs of $1.5 million. HEP funded the redemption with borrowings under the HEP Credit Agreement.

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.

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

	September 30, 2014	December 31, 2013
	(In thousands)	
6.875% Senior Notes		
Principal	$150,000	$150,000
Unamortized premium	4,377	5,054
	154,377	155,054
Financing Obligation	33,603	34,835
Total HollyFrontier long-term debt	187,980	189,889
HEP Credit Agreement	555,000	363,000
HEP 6.5% Senior Notes		
Principal	300,000	300,000
Unamortized discount	(3,584)	(4,073)
	296,416	295,927
HEP 8.25% Senior Notes		
Principal	—	150,000
Unamortized discount	—	(1,297)
	—	148,703
Total HEP long-term debt	851,416	807,630
Total long-term debt	$1,039,396	$997,519

We capitalized interest attributable to construction projects of $2.9 million and $2.8 million for the three months ended September 30, 2014 and 2013, respectively, and $9.0 million and $9.2 million for the nine months ended September 30, 2014 and 2013, 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 and conventional unleaded gasoline. We also have forward sales contracts that lock in the prices of future 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.

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

	Unrealized Gain (Loss) Recognized in OCI	Gain (Loss) Recognized in Earnings Due to Settlements		Gain (Loss) Attributable to Hedge Ineffectiveness Recognized in Earnings	
		Location	Amount	Location	Amount
	(In thousands)				
Three Months Ended September 30, 2014					
Commodity price swaps					
Change in fair value	$4,580	Sales and other revenues	$(6,202)	Sales and other revenues	$1,498
Gain reclassified to earnings due to settlements	(14,400)	Cost of products sold	20,776	Cost of products sold	(6,189)
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(444)	Operating expenses	(99)
Total	$(9,550)		$14,130		$(4,790)
Three Months Ended September 30, 2013					
Commodity price swaps					
Change in fair value	$27,049	Sales and other revenues	$(10,138)	Sales and other revenues	$1,949
Gain reclassified to earnings due to settlements	(22,007)	Cost of products sold	32,874	Cost of products sold	(962)
Amortization of discontinued hedges reclassified to earnings	270	Operating expenses	(999)	Operating expenses	259
Total	$5,312		$21,737		$1,246
Nine Months Ended September 30, 2014					
Commodity price swaps					
Change in fair value	$145,046	Sales and other revenues	$(80,475)	Sales and other revenues	$1,498
Gain reclassified to earnings due to settlements	(33,357)	Cost of products sold	111,217	Cost of products sold	(6,189)
Amortization of discontinued hedge reclassified to earnings	810	Operating expenses	1,805	Operating expenses	(905)
Total	$112,499		$32,547		$(5,596)
Nine Months Ended September 30, 2013					
Commodity price swaps					
Change in fair value	$41,410	Sales and other revenues	$(25,454)	Sales and other revenues	$2,143

Gain reclassified to earnings due to settlements	(1,396	)	Cost of products sold	28,271		Cost of products sold	730
Amortization of discontinued hedge reclassified to earnings	630		Operating expenses	(2,051	)	Operating expenses	—
Total	$40,644			$766			$2,873

As of September 30, 2014, we have the following notional contract volumes related to outstanding derivative instruments serving as cash flow hedges against price risk on forecasted purchases of natural gas and crude oil and sales of refined products:

		Notional Contract Volumes by Year of Maturity				
Derivative Instrument	Total Outstanding Notional	2014	2015	2016	2017	Unit of Measure
Natural gas - long	31,200,000	2,400,000	9,600,000	9,600,000	9,600,000	MMBTU
WTI crude oil - long	11,418,000	7,038,000	4,380,000	—	—	Barrels
Ultra-low sulfur diesel - short	8,106,000	3,726,000	4,380,000	—	—	Barrels
Sub octane gasoline - short	3,312,000	3,312,000	—	—	—	Barrels

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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 31,200,000 MMBTU's to be purchased ratably through 2017. As of September 30, 2014, we have an unrealized loss of $3.5 million classified in accumulated other comprehensive income that relates to the application of hedge accounting prior to dedesignation that is 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 purchases and WTI crude oil, and to lock in the spread between WCS and WTI crude oil and WTS and WTI crude oil on forecasted purchases of WCS and WTS, respectively. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Location of Gain (Loss) Recognized in Income	2014	2013	2014	2013
	(In thousands)			
Cost of products sold	$27,773	$(29,515)	$3,367	$5,916
Operating expenses	3	(157)	(185)	(5,458)
Total	$27,776	$(29,672)	$3,182	$458

As of September 30, 2014, we have the following notional contract volumes related to our outstanding derivative contracts serving as economic hedges:

		Notional Contract Volumes by Year of Maturity				
Derivative Instrument	Total Outstanding Notional	2014	2015	2016	2017	Unit of Measure
Commodity price swap (WCS spread) - long	1,610,000	1,610,000	—	—	—	Barrels
Commodity price swap (WTS spread) - long	1,825,000	—	1,825,000	—	—	Barrels
Commodity price swap (WTI) - long	365,000	—	365,000	—	—	Barrels
Commodity price swap (natural gas) - long	31,200,000	2,400,000	9,600,000	9,600,000	9,600,000	MMBTU
Commodity price swap (natural gas) - short	31,200,000	2,400,000	9,600,000	9,600,000	9,600,000	MMBTU
NYMEX futures (WTI) - short	1,043,000	939,000	104,000	—	—	Barrels

Interest Rate Risk Management
HEP uses interest rate swaps to manage its exposure to interest rate risk.

As of September 30, 2014, 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 2.00% as of September 30, 2014, which equaled an effective interest rate of 2.99%. 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 2.00% as of September 30, 2014, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017. All of these swap contracts have been designated as cash flow hedges. To date, there has been no ineffectiveness on these cash flow hedges.

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

	Unrealized Gain (Loss) Recognized in OCI	Loss Recognized in Earnings Due to Settlements	
		Location	Amount
	(In thousands)		
Three Months Ended September 30, 2014			
Interest rate swaps			
Change in fair value	$553		
Loss reclassified to earnings due to settlements	556	Interest expense	$(556)
Total	$1,109		$(556)
Three Months Ended September 30, 2013			
Interest rate swaps			
Change in fair value	$(1,626)		
Loss reclassified to earnings due to settlements	529	Interest expense	$(529)
Total	$(1,097)		$(529)
Nine Months Ended September 30, 2014			
Interest rate swaps			
Change in fair value	$(1,189)		
Loss reclassified to earnings due to settlements	1,647	Interest expense	$(1,647)
Total	$458		$(1,647)
Nine Months Ended September 30, 2013			
Interest rate swaps			
Change in fair value	$1,329		
Loss reclassified to earnings due to settlements	1,549		
Amortization of discontinued hedge reclassified to earnings	849	Interest expense	$(2,398)
Total	$3,727		$(2,398)

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)				
September 30, 2014						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$104,969	$(31,480)	$73,489	$12,735	$(5,456)	$7,279
Interest rate swap contracts	1,545	—	1,545	1,231	—	1,231
	$106,514	$(31,480)	$75,034	$13,966	$(5,456)	$8,510
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$14,325	$(3,961)	$10,364	$11,624	$(7,860)	$3,764
NYMEX futures contracts	1,848	—	1,848	—	—	—
	$16,173	$(3,961)	$12,212	$11,624	$(7,860)	$3,764
Total net balance			$87,246			$12,274
Balance sheet classification:	Prepayment and other		$84,559			
	Intangibles and other		2,687	Other long-term liabilities		$12,274
			$87,246			$12,274

	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, 2013						
Derivatives designated as cash flow hedging instruments:						
Commodity price swap contracts	$—	$—	$—	$63,561	$(23,679)	$39,882
	1,670	—	1,670	1,814	—	1,814

Interest rate swap contracts						
	$1,670	$—	$1,670	$65,375	$(23,679)	$41,696
Derivatives not designated as cash flow hedging instruments:						
Commodity price swap contracts	$6,972	$—	$6,972	$19,766	$(12,611)	$7,155
NYMEX futures contracts	—	—	—	3,569	—	3,569
	$6,972	$—	$6,972	$23,335	$(12,611)	$10,724
Total net balance			$8,642			$52,420
Balance sheet classification:	Prepayment and other		$6,972	Accrued liabilities		$26,843
	Intangibles and other		1,670	Other long-term liabilities		25,577
			$8,642			$52,420

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At September 30, 2014, we had a pre-tax net unrealized gain of $68.4 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 $76.7 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.

NOTE 11: Equity

Changes to equity during the nine months ended September 30, 2014 are presented below:

	HollyFrontier Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2013	$5,999,620	$609,778	$6,609,398
Net income	503,496	33,177	536,673
Dividends	(485,803)	—	(485,803)
Distributions to noncontrolling interest holders	—	(58,473)	(58,473)
Other comprehensive income, net of tax	69,189	278	69,467
Equity-based compensation	18,235	2,493	20,728
Excess tax benefit attributable to equity-based compensation	4,482	—	4,482
Purchase of treasury stock [1]	(135,062)	—	(135,062)
Purchase of HEP units for restricted grants	—	(1,064)	(1,064)
Other	—	502	502
Balance at September 30, 2014	$5,974,157	$586,691	$6,560,848

(1) Includes 92,048 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.

In September 2014, our Board of Directors approved a $500 million share repurchase program, which replaced the existing stock repurchase program, 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, corporate, regulatory and other relevant considerations. This program may be discontinued at any time by the Board of Directors. As of September 30, 2014, we had remaining authorization to repurchase up to $467.8 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.

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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 September 30, 2014			
Net unrealized loss on marketable securities	$(165)	$(64)	$(101)
Net unrealized loss on hedging instruments	(8,441)	(3,527)	(4,914)
Net change in post-retirement benefit obligations	422	163	259
Other comprehensive loss	(8,184)	(3,428)	(4,756)
Less other comprehensive income attributable to noncontrolling interest	673	—	673
Other comprehensive loss attributable to HollyFrontier stockholders	$(8,857)	$(3,428)	$(5,429)
Three Months Ended September 30, 2013			
Net unrealized gain on marketable securities	$34	$13	$21
Net unrealized gain on hedging instruments	4,215	1,933	2,282
Other comprehensive income	4,249	1,946	2,303
Less other comprehensive loss attributable to noncontrolling interest	(665)	—	(665)
Other comprehensive income attributable to HollyFrontier stockholders	$4,914	$1,946	$2,968
Nine Months Ended September 30, 2014			
Net unrealized loss on marketable securities	$(129)	$(50)	$(79)
Net unrealized gain on hedging instruments	112,957	43,616	69,341
Net change in post-retirement benefit obligations	333	128	205
Other comprehensive income	113,161	43,694	69,467
Less other comprehensive income attributable to noncontrolling interest	278	—	278
Other comprehensive income attributable to HollyFrontier stockholders	$112,883	$43,694	$69,189
Nine Months Ended September 30, 2013			
Net unrealized gain on marketable securities	$5	$2	$3
Net unrealized gain on hedging instruments	44,371	16,473	27,898
Net change in pension and other post-retirement benefit obligations	30,712	11,946	18,766
Other comprehensive income	75,088	28,421	46,667
Less other comprehensive income attributable to noncontrolling interest	2,068	—	2,068
Other comprehensive income attributable to HollyFrontier stockholders	$73,020	$28,421	$44,599

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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) Three Months Ended September 30, 2014		2013		Income Statement Line Item
	2014		2013		
Marketable securities	$12		$10		Interest income
	5		4		Income tax expense
	7		6		Net of tax
Hedging instruments:					
Commodity price swaps	(6,202	)	(10,138	)	Sales and other revenues
	20,776		32,874		Cost of products sold
	(444	)	(999	)	Operating expenses
Interest rate swaps	(556	)	(529	)	Interest expense
	13,574		21,208		
	5,384		8,375		Income tax expense
	8,190		12,833		Net of tax
	337		321		Noncontrolling interest
	8,527		13,154		Net of tax and noncontrolling interest
Retirement restoration plan	(422	)	—		General and administrative expenses
	(163	)	—		Income tax benefit
	(259	)	—		Net of tax
Total reclassifications for the period	$				