HOLLY CORP
Form 10-Q
May 12, 2008

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from__________ to __________

Commission File Number 1-3876

HOLLY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	75-1056913
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Crescent Court, Suite 1600 Dallas, Texas	75201-6915
(Address of principal executive offices)	(Zip Code)

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

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

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

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

50,106,730 shares of Common Stock, par value $.01 per share, were outstanding on April 30, 2008.

HOLLY CORPORATION
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

References herein to Holly Corporation include Holly Corporation and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission s (SEC) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we , our , ours and us refer only to Holly Corporatio and its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person.

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

- risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in our markets;
- the demand for and supply of crude oil and refined products;
- the spread between market prices for refined products and market prices for crude oil;
- the possibility of constraints on the transportation of refined products;
- the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines;
- effects of governmental 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 on acceptable terms and to integrate any future acquired operations;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation in conjunction with the forward-looking statements included in this Form 10-Q that are referred to above. This summary discussion should be read in conjunction with the discussion of risk factors and other cautionary statements under the heading Risk Factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007 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 headings Liquidity and Capital Resources. All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

DEFINITIONS

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

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

BPD means the number of barrels per 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.

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

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

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

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

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

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

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

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

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

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

LPG means liquid petroleum gases.

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

MMBtu or one million British thermal units, means for each unit, the amount of heat required to raise one pound of water one degree Fahrenheit at one atmosphere pressure.

MMSCFD means one million standard cubic feet per day.

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

Table of Contents

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

PPM means parts-per-million.

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

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

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

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

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

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

Table of Contents

Item 1. Financial Statements

HOLLY CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

		March 31, 2008 (Unaudited)	December 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents		$ 180,551	$ 94,369
Marketable securities		205,974	158,233
Accounts receivable:	Product and transportation	238,730	242,392
	Crude oil resales	431,229	366,226
	Related party receivable		6,151
		669,959	614,769
Inventories:	Crude oil and refined products	118,850	118,308
	Materials and supplies	16,265	22,322
		135,115	140,630
Income taxes receivable		13,451	16,356
Prepayments and other		8,707	10,264
Total current assets		1,213,757	1,034,621
Properties, plants and equipment, at cost		1,200,294	802,820
Less accumulated depreciation, depletion and amortization		(266,072)	(271,970)
		934,222	530,850
Marketable securities (long-term)		51,246	77,182
Other assets:	Turnaround costs (long-term)	8,735	8,705
	Intangibles and other	68,762	12,587
		77,497	21,292
Total assets		$ 2,276,722	$ 1,663,945
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable		$ 914,322	$ 782,976
Accrued liabilities		34,176	35,104

Short-term debt Holly Energy Partners	10,000	
Total current liabilities	958,498	818,080
Long-term debt Holly Corporation		
Long-term debt Holly Energy Partners	341,416	
Deferred income taxes	36,425	38,933
Other long-term liabilities	42,334	36,712
Distributions in excess of investment in Holly Energy Partners		168,093
Minority interest	398,016	8,333
Stockholders equity:		
Preferred stock, $1.00 par value 1,000,000 shares authorized; none issued		
Common stock $.01 par value 160,000,000 shares authorized; 73,527,953 and 73,269,219 shares issued as of March 31, 2008 and December 31, 2007, respectively	735	733
Additional capital	112,781	109,125
Retained earnings	1,055,989	1,054,974
Accumulated other comprehensive loss	(20,662)	(19,076)
Common stock held in treasury, at cost 22,818,361 and 20,653,050 shares as of March 31, 2008 and December 31, 2007, respectively	(648,810)	(551,962)
Total stockholders equity	500,033	593,794
Total liabilities and stockholders equity	$ 2,276,722	$ 1,663,945

See accompanying notes.

Table of Contents

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

	Three Months Ended March 31,	
	2008	**2007**
Sales and other revenues	$ 1,479,984	$ 925,867
Operating costs and expenses:		
Cost of products sold (exclusive of depreciation, depletion, and amortization)	1,383,437	751,714
Operating expenses (exclusive of depreciation, depletion, and amortization)	60,708	50,129
General and administrative expenses (exclusive of depreciation, depletion, and amortization)	12,832	15,847
Depreciation, depletion and amortization	13,309	11,451
Exploration expenses, including dry holes	105	152
Total operating costs and expenses	1,470,391	829,293
Income from operations	9,593	96,574
Other income (expense):		
Equity in earnings of Holly Energy Partners	2,990	3,346
Minority interest in earnings of Holly Energy Partners	(802)	
Interest income	3,555	2,560
Interest expense	(1,992)	(252)
	3,751	5,654
Income from operations before income taxes	13,344	102,228
Income tax provision:		
Current	6,318	34,758
Deferred	(1,623)	(72)
	4,695	34,686
Net income	$ 8,649	$ 67,542
Net income per share basic	$ 0.17	$ 1.22
Net income per share diluted	$ 0.17	$ 1.20

Cash dividends declared per common share	$ 0.15	$ 0.10
Average number of common shares outstanding:		
Basic	51,165	55,189
Diluted	51,515	56,318

See accompanying notes.

Table of Contents

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net income	$ 8,649	$ 67,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	13,309	11,451
Deferred income taxes	(1,623)	(72)
Minority interest in earnings of Holly Energy Partners	802	
Equity based compensation expense	178	1,231
Distributions in excess of equity in earnings in Holly Energy Partners	3,067	2,089
(Increase) decrease in current assets:		
Accounts receivable	(49,717)	35,682
Inventories	5,626	(15,758)
Income taxes receivable	2,905	9,055
Prepayments and other	1,855	1,330
Increase (decrease) in current liabilities:		
Accounts payable	125,125	(25,478)
Accrued liabilities	(9,989)	(16,552)
Income taxes payable		16,109
Turnaround expenditures	(1,398)	(198)
Other, net	61	(130)
Net cash provided by operating activities	98,850	86,301
Cash flows from investing activities:		
Additions to properties, plants and equipment	(72,761)	(26,750)
Purchases of marketable securities	(207,557)	(89,165)
Investment in Holly Energy Partners	(290)	
Sales and maturities of marketable securities	185,772	62,140
Proceeds form sale of crude pipeline and tankage assets	171,000	
Increase in cash due to consolidation of Holly Energy Partners	7,295	
Net cash provided by (used for) investing activities	83,459	(53,775)
Cash flows from financing activities:		
Borrowings under credit agreement Holly Energy Partners	10,000	
Deferred financing costs	(365)	
Purchase of treasury stock	(102,850)	(35,837)
Cash dividends	(6,410)	(4,477)
Contribution from joint venture partner	19	
Issuance of common stock upon exercise of options	254	263
Excess tax benefit from equity based compensation	3,225	4,587
Net cash used for financing activities	(96,127)	(35,464)
Cash and cash equivalents:		

Increase (decrease) for the period	86,182	(2,938)
Beginning of period	94,369	154,117
End of period	$ 180,551	$ 151,179
Supplemental disclosure of cash flow information:		
Cash paid during the period for		
Interest	$ 5,080	$ 14
Income taxes	$ 298	$ 5,006

See accompanying notes.

Table of Contents

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

	Three Months Ended March 31,	
	2008	**2007**
	(In thousands)	
Net income	$ 8,649	$ 67,542
Other comprehensive income (loss):		
Securities available for sale:		
Unrealized gain on available for sale securities	826	378
Reclassification adjustment to net income on sale of marketable securities	(1,307)	(21)
Total unrealized gain (loss) on available for sale securities	(481)	357
Retirement medical obligation adjustment		(2,792)
Other comprehensive loss of Holly Energy Partners		
Change in fair value of cash flow hedge	(4,349)	
Less minority interest in other comprehensive loss	2,359	
Other comprehensive loss of Holly Energy Partners, net of minority interest	(1,990)	
Other comprehensive loss before income taxes	(2,471)	(2,435)
Income tax benefit	(885)	(949)
Other comprehensive loss	(1,586)	(1,486)
Total comprehensive income	$ 7,063	$ 66,056

See accompanying notes.

Table of Contents

HOLLY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

References herein to Holly Corporation include Holly Corporation and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission s (SEC) Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we , our , ours and us refer only to Holly Corporatio and its consolidated subsidiaries or to Holly Corporation or an individual subsidiary and not to any other person. For periods after the reconsolidation of HEP effective March 1, 2008, the words we , our , ours , and us normally include HEP and its subsidiaries as consolidated subsidiaries of Holly Corporation, except that such words generally do not include HEP and its subsidiaries when used in descriptions of agreements or transactions between HEP and its subsidiaries on the one hand and Holly Corporation and its other subsidiaries on the other hand.

As of the close of business on March 31, 2008, we:

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

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

- owned a 46% interest in Holly Energy Partners, L.P. (HEP) which includes our 2% general partner interest, which has logistic assets including approximately 2,500 miles of petroleum product pipelines located in Texas, New Mexico, Oklahoma and Utah (including 340 miles of leased pipeline); ten refined product terminals; two refinery truck rack facilities, a refined products tank farm facility, and a 70% interest in Rio Grande Pipeline Company (Rio Grande). On February 29, 2008, HEP acquired certain crude pipelines and tankage assets that also service our Navajo and Woods Cross Refineries.

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, 2008, the consolidated results of operations and comprehensive income for the three months ended March 31, 2008 and 2007 and consolidated cash flows for the three months ended March 31, 2008 and 2007 in accordance with the rules and regulations of the SEC. Although certain notes and other information required by accounting principles generally accepted in the United States 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, 2007 filed with the SEC.

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 and costs at that time. Accordingly, interim LIFO calculations are based on management s estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation.

Our results of operations for the first three months of 2008 are not necessarily indicative of the results to be expected for the full year.

On February 29, 2008, we closed on the sale of certain crude pipelines and tankage assets (the Crude Pipelines and Tankage Assets) to HEP for $180.0 million. See Note 2 for a description of this transaction.

HEP is a variable interest entity (VIE) as defined under FIN No. 46. Under the provisions of FIN No. 46, HEP s purchase of the Crude Pipelines and Tankage Assets qualifies as a reconsideration event whereby we reassessed our beneficial interest in HEP. Following this transaction, we determined that our beneficial interest in HEP exceeds 50%. Accordingly, we reconsolidated HEP effective March 1, 2008 and no longer account for our investment in HEP under the equity method of accounting.

- 10 -

Table of Contents

New Accounting Pronouncements

Statement of Financial Accounting Standard (SFAS) No. 160 Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin (ARB) No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51. SFAS No. 160 changes the classification of non-controlling interests, also referred to as minority interests, in the consolidated financial statements. It also establishes a single method of accounting for changes in a parent company s ownership interest that do not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. We will adopt this standard effective January 1, 2009. We are currently evaluating the impact of this standard on our financial condition, results of operations and cash flows.

Emerging Issues Task Force (EITF) No. 06-11 Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards

In June 2007, the FASB ratified EITF No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF No. 06-11 requires that tax benefits generated by dividends paid during the vesting period on certain equity-classified share-based compensation awards be classified as additional paid-in capital and included in a pool of excess tax benefits available to absorb tax deficiencies from share-based payment awards. EITF No. 06-11 is effective for fiscal years beginning after December 15, 2007. We adopted this standard effective January 1, 2008. The adoption of this standard did not have a material effect on our financial condition, results of operations or cash flows.

SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of Financial Accounting Standards Board (FASB) Statement No. 115

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No 115. SFAS No. 159, which amends SFAS No. 115, allows certain financial assets and liabilities to be recognized, at a company s election, at fair market value, with any gains or losses for the period recorded in the statement of income. SFAS No. 159 includes available-for-sale securities in the assets eligible for this treatment. Currently, we record the gains or losses for the period as a component of comprehensive income and in the equity section of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, and interim periods in those fiscal years. We adopted this standard effective January 1, 2008. The adoption of this standard did not have a material effect on our financial condition, results of operations or cash flows.

SFAS No. 157 Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This standard simplifies and codifies guidance on fair value measurements under generally accepted accounting principles. This standard defines fair value, establishes a framework for measuring fair value and prescribes expanded disclosures about fair value measurements. It also establishes a fair value hierarchy that categorizes inputs used in fair value measurements into three broad levels. Under this hierarchy, quoted prices in active markets for identical assets or liabilities are considered the most reliable evidence of fair value and are given the highest priority level (level 1). Unobservable inputs are considered the least reliable and are given the lowest priority level (level 3). We adopted this standard effective January 1, 2008. HEP has interest rate swaps that are measured at fair value on a recurring basis using level 2 inputs. See Note 7 for additional information on these swaps.

NOTE 2: Holly Energy Partners

HEP is a publicly held master limited partnership that commenced operations July 13, 2004 upon the completion of its initial public offering. At March 31, 2008, we held 7,000,000 subordinated units and 290,000 common units of HEP, representing a 46% ownership interest in HEP, including our 2% general partner interest.

On February 29, 2008, we closed on the sale of the Crude Pipelines and Tankage Assets to HEP for $180.0 million. The assets consisted of crude oil trunk lines that deliver crude oil to our Navajo Refinery in southeast New Mexico, gathering and connection pipelines located in west Texas and New Mexico, on-site crude tankage located within the Navajo and Woods Cross Refinery complexes, a jet fuel products pipeline and leased terminal between Artesia and

Table of Contents

Roswell, New Mexico, and crude oil and product pipelines that support our Woods Cross Refinery. Consideration received consisted of $171.0 million in cash and 217,497 HEP common units having a value of $9.0 million.

In connection with this transaction, we entered into a 15-year crude pipelines and tankage agreement with HEP (the HEP CPTA). Under the HEP CPTA, we agreed to transport and store volumes of crude oil on HEP s crude pipelines and tankage facilities that, at the agreed rates, will initially result in minimum annual payments to HEP of $25.3 million. The agreed upon tariffs on the crude pipelines will be adjusted each year at a rate equal to the percentage change in the producer price index (PPI), but will not decrease as a result of a decrease in the PPI. Additionally, we amended our omnibus agreement (the Omnibus Agreement) to provide $7.5 million of indemnification for environmental noncompliance and remediation liabilities associated with the Crude Pipelines and Tankage Assets that occurred or existed prior to our sale to HEP for a period of up to fifteen years.

HEP also serves our refineries in New Mexico and Utah under a 15-year pipelines and terminals agreement (the HEP PTA) expiring in 2019 and a 15-year intermediate pipeline agreement expiring in 2020 (the HEP IPA). Under the HEP PTA, we pay HEP fees to transport on their refined product pipelines or throughput in their terminals, volumes of refined products that will result in minimum annual payments to HEP. Under the HEP IPA, we agreed to transport minimum volumes of intermediate products on the intermediate pipelines that will also result in minimum annual payments to HEP. Minimum payments for both agreements are adjusted annually on July 1 based on increases in the PPI. Following the July 1, 2007 PPI rate adjustment, minimum payments under the HEP PTA and the HEP IPA are $39.6 million and $12.8 million, respectively, for the twelve months ended June 30, 2008.

HEP is a variable interest entity as defined under FIN No. 46. Under the provisions of FIN No. 46, this transaction qualifies as a reconsideration event whereby we reassessed our beneficial interest in HEP. Following HEP s acquisition of our crude pipelines and tankage assets, we determined that our beneficial interest in HEP exceeds 50%. Accordingly, we reconsolidated HEP effective March 1, 2008 and no longer account for our investment in HEP under the equity method of accounting.

The following table sets forth the changes in our investment account in HEP for the period from January 1, 2008 through February 29, 2008, prior to our reconsolidation effective March 1, 2008:

	(In thousands)
Investment in HEP balance at December 31, 2007	$ (168,093)
Equity in the earnings of HEP	2,990
Regular quarterly distributions from HEP	(6,057)
Consideration received in excess of basis in Crude Pipeline and Tankage Assets	(153,355)
HEP common units received	9,000
Purchase of additional HEP common units	104
Contribution made to maintain 2% general partner interest	186
Investment in HEP balance at February 29, 2008	$ (315,225)

As of March 1, 2008, the impact of the reconsolidation of HEP was an increase in cash of $7.3 million, an increase in other current assets of $5.9 million, an increase in property, plant and equipment of $368.2 million, an increase in intangibles and other assets of $56.4 million, an increase in current liabilities of $19.6 million, an increase in long-term debt of $341.4 million, an increase in other long-term liabilities of $0.3 million, an increase in minority interest of $391.7 million and a decrease in distribution in excess of investment in HEP of $315.2 million. These amounts are based on management s preliminary fair value estimates.

The following tables provide summary financial results for HEP through February 29, 2008, prior to our reconsolidation effective March 1, 2008.

	February 29, 2008	December 31, 2007
	(In thousands)	
Current assets	&nb	