

HOLLY CORP  
Form DEF 14A  
April 10, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Holly Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**HOLLY CORPORATION**  
**100 Crescent Court**  
**Suite 1600**  
**Dallas, Texas 75201-6915**

**April 9, 2009**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Holly Corporation (the Company) to be held on Thursday, May 14, 2009, at 10:00 a.m., local time, in Salons A & B, Hotel Crescent Court, 400 Crescent Court, Dallas, Texas. Please find enclosed a notice to stockholders, a Proxy Statement describing the business to be transacted at the meeting, a form of proxy for use in voting at the meeting and an Annual Report for Holly Corporation.

At the Annual Meeting, you will be asked (i) to elect eight (8) directors to the Board of Directors of the Company, (ii) to ratify the recommendation of the Company's Audit Committee and endorsed by the Board of Directors, of the selection of Ernst & Young, LLP, an independent registered public accounting firm, as the Company's auditor for the year 2009, and (iii) to act upon such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

We hope that you will be able to attend the Annual Meeting, and we urge you to read the enclosed Proxy Statement before you vote. Whether or not you plan to attend, please complete, sign, date and return the enclosed proxy card or grant your proxy by Internet or telephone, as described on the enclosed proxy card, as promptly as possible. It is important that your shares be represented at the meeting.

Very truly yours,

MATTHEW P. CLIFTON  
*Chairman of the Board and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT**

**All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the meeting, you are urged to complete, sign, date and return, in the enclosed postage paid envelope, the enclosed proxy card or to grant your proxy by the Internet or by telephone, as described on the enclosed proxy card, as promptly as possible. Returning your proxy card or granting your proxy by the Internet or by telephone will help the Company assure that a quorum will be present at the meeting and avoid the additional expense of duplicate proxy solicitations. Any stockholder attending the meeting may vote in person even if he or she has returned the proxy card or has granted his or her proxy by telephone. When providing your proxy, please indicate whether you plan to attend the Annual Meeting in person.**

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**HOLLY CORPORATION**  
**100 Crescent Court**  
**Suite 1600**  
**Dallas, Texas 75201-6915**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**April 9, 2009**

PLEASE TAKE NOTICE that the 2009 Annual Meeting of Stockholders (the "Annual Meeting") of Holly Corporation (the "Company") will be held on Thursday, May 14, 2009, at 10:00 a.m. local time in Salons A & B, Hotel Crescent Court, 400 Crescent Court, Dallas, Texas, to consider and vote on the following matters:

1. Election of eight (8) directors to serve on the Board of Directors (the "Board") of the Company until the Company's next annual meeting;
2. Ratification of the recommendation of the Company's Audit Committee, endorsed by the Board, of the selection of Ernst & Young, LLP, an independent registered public accounting firm, as the Company's auditor for the year 2009; and
3. Such other business as may properly come before the meeting, or any postponement or adjournment thereof.

The Company's Annual Report for its year ended December 31, 2008 is being distributed with this Proxy Statement.

The close of business on March 25, 2009 (the "Record Date"), has been fixed as the record date for the determination of stockholders entitled to receive notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof. Only holders of record of the Company's common stock (the "Common Stock") at the close of business on the Record Date are entitled to notice of, and to vote at, the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection by any stockholder for any purpose germane to the Annual Meeting during ordinary business hours for the ten days preceding the Annual Meeting at the Company's offices at the address on this notice and will also be available at the Annual Meeting.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 14, 2009:**

**The proxy statement, proxy card and 2008 Annual Report to Stockholders are available on the Company's website at [www.hollycorp.com/investors.cfm](http://www.hollycorp.com/investors.cfm).**

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Whether or not you plan to attend the Annual Meeting, please complete, sign, date and return the enclosed proxy card or grant your proxy by the Internet or telephone, as described on the enclosed proxy card, as promptly as possible. When providing your proxy, please indicate whether you plan to attend the Annual Meeting in person. You may revoke your proxy before the Annual Meeting as described in the Proxy Statement under the heading Solicitation and Revocability of Proxies. The prompt return of proxies will save the expense involved in further communications.

By Order of the Board of Directors:

DENISE C. MCWATTERS

*Secretary*

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**PROXY STATEMENT  
OF  
HOLLY CORPORATION  
100 Crescent Court  
Suite 1600  
Dallas, Texas 75201-6915**

**SOLICITATION AND REVOCABILITY OF PROXIES**

The Board requests your proxy for use at the Annual Meeting of Stockholders to be held on Thursday, May 14, 2009, and at any adjournment or postponement thereof. By signing and returning the enclosed proxy card or granting your proxy by the Internet or by telephone, you authorize the persons named on the proxy card, or in your telephonically or electronically submitted proxy (collectively, the Proxy ), to represent you and to vote your shares at the Annual Meeting. This Proxy Statement and the proxy card were first mailed to stockholders of the Company on or about April 9, 2009.

This solicitation of proxies is made by the Board and will be conducted primarily by mail. Officers, directors and employees of the Company may solicit proxies personally or by telephone, electronic mail, telegram or other forms of wire or facsimile communication. The Company may also request banking institutions, brokerage firms, custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of the Company's Common Stock that those companies hold of record. The costs of the solicitation, including reimbursement of such forwarding expenses, will be paid by the Company.

If you attend the Annual Meeting, you may vote in person. If you are not present at the Annual Meeting, your shares can be voted only if you have returned a properly signed proxy card, are represented by another proxy, or have granted your proxy by the Internet or by telephone. You may revoke your proxy, whether granted by the Internet or by telephone or by returning the enclosed proxy card, at any time before it is exercised at the Annual Meeting by (a) signing and submitting a later-dated proxy to the Secretary of the Company, (b) delivering written notice of revocation of the proxy to the Secretary of the Company, or (c) voting in person at the Annual Meeting. In addition, if you granted your proxy by the Internet or by telephone, you may revoke such grant by resubmitting your proxy by the Internet or by telephone at any time prior to 11:59 p.m., Eastern Daylight Time, on May 13, 2009. In the absence of any such revocation, shares represented by the persons named in the Proxies will be voted at the Annual Meeting.

**VOTING AND QUORUM**

The only outstanding voting securities of the Company are shares of Common Stock. As of the close of business on the Record Date, there were 50,158,263 shares of Common Stock outstanding and entitled to be voted at the Annual Meeting.

Each outstanding share of Common Stock is entitled to one vote. The presence, in person or by proxy, of a majority of the shares of Common Stock issued and outstanding and entitled to vote as of the Record Date shall constitute a quorum at the Annual Meeting. The holders of a majority of the Common Stock entitled to vote who are present or represented by proxy at the Annual Meeting have the power to adjourn the Annual Meeting from time to time without notice, other than an announcement at the Annual Meeting of the time and place of the holding of the adjourned meeting, until a quorum is present. At any such adjourned meeting at which a quorum is present, any business may be transacted that could have been transacted at the Annual Meeting had a quorum originally been present. Proxies solicited by this Proxy Statement may be used to vote in favor of any motion to adjourn the Annual Meeting. The persons named in the Proxy intend to vote in favor of any motion to adjourn the Annual Meeting to a subsequent day



if, prior to the Annual Meeting, such persons have not received sufficient proxies to approve the proposals described in this Proxy Statement. If such a motion is approved but sufficient proxies are not received by the time set for the resumption of the Annual Meeting, this process will be repeated until sufficient proxies to vote in favor of the proposals described in this Proxy Statement have been received or it appears that sufficient proxies will not be received. Abstentions and broker non-votes will count in determining if a quorum is present at the Annual Meeting. A broker non-vote occurs if a broker or other nominee attending the meeting in person or submitting a

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proxy card does not have discretionary authority to vote on a particular item and has not received voting instructions with respect to that item.

**PROPOSAL ONE ELECTION OF DIRECTORS**

The Board has designated Buford P. Berry, Matthew P. Clifton, Leldon E. Echols, Marcus R. Hickerson, Thomas K. Matthews, II, Robert G. McKenzie, Jack P. Reid and Paul T. Stoffel as nominees for election as directors of the Company at the Annual Meeting (each, a Nominee). All of the Nominees currently serve as directors of the Company. If elected, each Nominee will serve until the expiration of his term at the Annual Meeting of Stockholders in 2010 and until his successor is elected and qualified or until his earlier death, resignation or removal from office. For information about each Nominee, see Directors.

The Board has no reason to believe that any of the Nominees will be unable or unwilling to serve if elected. If a Nominee becomes unable or unwilling to serve prior to the election, your proxy will be voted for the election of a substitute nominee recommended by the current Board, or the number of the Company's directors will be reduced.

**Required Vote and Recommendation**

The election of directors requires the affirmative vote of a plurality of the shares of Common Stock present or represented by proxy and entitled to vote at the Annual Meeting. Accordingly, under Delaware law and the Company's Restated Certificate of Incorporation, as amended, and Bylaws, abstentions and broker non-votes will not have any effect on the election of a particular director. Unless otherwise instructed in the Proxy or unless authority to vote is withheld, the Proxy will be voted for the election of each of the Nominees.

**The Board recommends a vote FOR the election of each of the Nominees.**

**PROPOSAL TWO AUDITORS**

In accordance with its charter, the Audit Committee has selected the firm of Ernst & Young LLP, an independent public accounting firm, to be the Company's auditor for the year 2009 and, with the endorsement of the Board, recommends to the stockholders that they ratify that appointment. Ernst & Young LLP served in this capacity in 2008. Its representative will be present at the Annual Meeting and will have an opportunity to make a statement and will be available to respond to appropriate questions.

The Audit Committee reviewed and approved in advance the audit scope, the types of non-audit services, if any, and the estimated fees for each category for the coming year. For each category of proposed services, Ernst & Young LLP is required to confirm that the provision of such services does not impair their independence. Before selecting Ernst & Young LLP, the Audit Committee carefully considered the firm's qualifications as an independent registered public accounting firm for the Company. This included a review of its performance in prior years, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Audit Committee has expressed its satisfaction with Ernst & Young LLP in all of these respects. The Audit Committee's review included inquiry concerning any litigation involving Ernst & Young LLP and any proceedings by the Securities and Exchange Commission (the SEC) against the firm. In this respect, the Audit Committee has concluded that the ability of Ernst & Young LLP to perform the services for the Company is in no way adversely affected by any such litigation or other proceedings.

**The Board and the Audit Committee recommend a vote FOR the ratification of the Board's selection of Ernst & Young LLP as the Company's auditor for 2009.**



**Table of Contents****OWNERSHIP OF SECURITIES**

The following table and the notes thereto set forth certain information regarding the beneficial ownership of Common Stock as of the Record Date by (i) each current director of the Company, (ii) the named executive officers of the Company, (iii) all executive officers and directors of the Company as a group and (iv) each other person known to the Company to own beneficially more than five percent of Common Stock outstanding on the Record Date. Unless otherwise indicated, the address for each stockholder listed in the following table is c/o Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, Texas 75201-6915.

The Company has determined beneficial ownership in accordance with regulations of the SEC. The number of shares beneficially owned by a person includes shares of Common Stock that are subject to stock options that are either currently exercisable or exercisable within 60 days after the Record Date. These shares are also deemed outstanding for the purpose of computing the percentage of outstanding shares owned by such person. These shares are not deemed outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, to the Company's knowledge, each stockholder has sole voting and dispositive power with respect to the securities beneficially owned by that stockholder. On the Record Date, there were 50,158,263 shares of Common Stock outstanding.

| <b>Name and Address of Beneficial Owner</b>   | <b>Number of Shares<br/>and Nature of<br/>Beneficial<br/>Ownership</b> | <b>Percent of<br/>Common<br/>Stock<br/>Outstanding</b> |
|---|--|--|
| Brown Brothers Harriman Trust Company of Texas<br>2001 Ross Ave<br>Dallas, Texas 75201-2996 | 7,525,217 <sup>(1)</sup>   | 15.00%   |
| Lazard Asset Management LLC<br>30 Rockefeller Plaza,<br>New York, New York 10112            | 3,283,122 <sup>(2)</sup>   | 6.55%  |
| Jack P. Reid  | 608,721 <sup>(3)(4)(5)</sup>   | 1.21%  |
| Matthew P. Clifton  | 342,847 <sup>(3)(4)</sup>  | *  |
| Stephen J. McDonnell  | 281,909 <sup>(3)</sup>   | *  |
| Paul T. Stoffel   | 259,591 <sup>(3)</sup>   | *  |
| W. John Glancy  | 75,540 <sup>(3)</sup>  | *  |
| David L. Lamp   | 72,341 <sup>(3)(4)</sup>   | *  |
| Marcus R. Hickerson   | 66,139 <sup>(3)(6)</sup>   | *  |
| Bruce R. Shaw   | 28,919 <sup>(3)</sup>  | *  |
| Thomas K. Matthews, II  | 26,891 <sup>(3)</sup>  | *  |
| Robert G. McKenzie  | 16,831 <sup>(3)(7)</sup>   | *  |
| P. Dean Ridenour  | 14,116 <sup>(3)</sup>  | *  |
| Buford Berry  | 13,691 <sup>(3)</sup>  | *  |
| George J. Damiris   | 11,924 <sup>(3)</sup>  | *  |
| Denise C. McWatters   | 3,954 <sup>(3)</sup>   | *  |
| Leldon E. Echols  | 0  | *  |
| All directors and executive officers as a group (15 persons)                                | 1,823,414 <sup>(3)(4)(8)</sup>   | 3.63%  |

\* less than one percent.

- (1) Brown Brothers Harriman Trust Company of Texas ( Brown Brothers Texas ) is deemed to beneficially own 7,525,217 shares in its capacity as trustee of trusts for the benefit of Betty Simmons Regard, Margaret Simmons Dear, Suzanne Simmons Bartolucci and their descendants, and for Lamar Norsworthy, Nona Norsworthy Barrett and their descendants. Brown Brothers Texas has sole voting power and sole investment power (as applicable) with respect to 6,538,353 shares. Brown Brothers Texas is deemed to own beneficially 986,864 shares in its capacity as co-trustee for the benefit of Mrs. Barrett, Mr. Norsworthy and Mary Frances Norsworthy Fernandes. These trusts own 100% of NBN Asset Management Company, L.L.C. and NBN Capital

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L.P. which between them hold the 986,864 shares. Brown Brothers Harriman & Co. and Brown Brothers Harriman Trust Company, (N.A.) are controlling entities of Brown Brothers Texas.

- (2) Lazard Asset Management LLC has filed with the SEC a Schedule 13G, dated February 10, 2009. Based on the Schedule 13G, Lazard Asset Management LLC has sole voting power and sole dispositive power with respect to 3,283,122 shares, and shared voting power and shared dispositive power with respect to no shares
- (3) The number of shares beneficially owned includes shares of Common Stock of which such individuals or their trustees have the right to acquire beneficial ownership either currently or within 60 days after the record date, upon the exercise of options, as follows: 15,000 shares for Mr. Glancy, and no other directors or executive officers hold any unexercised options. The number of shares beneficially owned also includes unvested shares of restricted stock (including restricted stock granted in February 2009) which (as of the Record Date) such individuals cannot dispose of until the restrictions on these shares lapse, as follows: 55,491 restricted shares for Mr. Clifton, 28,181 restricted shares for Mr. Lamp, 13,077 restricted shares for Mr. Shaw, 9,824 restricted shares for Mr. Damiris, 3,462 restricted shares for Ms. McWatters, 1,231 restricted shares for Mr. Ridenour and 111,266 restricted shares for all executive officers as a group. The number does not include unvested performance share units. The number of shares beneficially owned by Messrs. Berry, Hickerson, Matthews, McKenzie, Reid and Stoffel includes a total of 6,681 restricted share units granted to each of these directors (40,086 restricted share units for all directors as a group) as compensation between 2006 and 2008 (see description of restricted share units under Compensation of Directors ).
- (4) The number of shares beneficially owned includes shares in the Thrift Plan for Employees of Holly Corporation, its Affiliates and Subsidiaries as follows: 37,892 shares for Mr. Clifton, 324 shares for Mr. Reid, 10 shares for Mr. Lamp, and 38,226 shares for all directors and executive officers as a group. All such shares are subject to the directions of the participant as to voting, holding or selling such shares.
- (5) This number includes 515,176 shares held in a family limited partnership of which Mr. Reid is the general partner. Mr. Reid disclaims beneficial ownership except to the extent of his partnership interest in the family limited partnership.
- (6) Mr. Hickerson disclaims beneficial ownership as to 16,000 of these shares, which he has indirect beneficial ownership of as trustee of trusts for the benefit of two of his children.
- (7) Mr. McKenzie disclaims beneficial ownership as to 500 of these shares, which he has indirect beneficial ownership of as custodian for his granddaughter under the Uniform Transfer to Minors Act.
- (8) Includes the 16,000 shares as to which Mr. Hickerson disclaims beneficial ownership, the 515,176 shares as to which Mr. Reid disclaims beneficial ownership, and the 500 shares as to which Mr. McKenzie disclaims beneficial ownership.

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The following tables set forth certain information regarding the directors of the Company in 2008 and Nominees for election in 2009. Each director's term of office expires at the Annual Meeting.

| <b>Name of Nominee</b>                                      | <b>Age</b> | <b>Current Title</b>                           |
|---|------------|--|
| Buford P. Berry   | 73         | Director                                       |
| Matthew P. Clifton  | 57         | Chief Executive Officer, Chairman of the Board |
| Leldon E. Echols (Director from January 1, 2009 to present) | 53         | Director                                       |
| Marcus R. Hickerson   | 82         | Director                                       |
| Thomas K. Matthews, II                                      | 83         | Director                                       |
| Robert G. McKenzie  | 71         | Director                                       |
| Jack P. Reid  | 72         | Director                                       |
| Paul T. Stoffel   | 73         | Director                                       |
| <u>Directors from January 1 – May 8, 2008</u>               |            |  |
| W. John Glancy  | 67         | None   |
| William J. Gray   | 68         | None   |

*Buford P. Berry*, a director since May 2004, has served as a manager and an Advisory Committee Member of Dorchester Minerals Management GP LLC since February 2003. He is currently of counsel to Thompson & Knight, L.L.P., a Texas based law firm. Mr. Berry has been an attorney with Thompson & Knight L.L.P., serving in various capacities since 1963, including as Managing Partner from 1986 to 1998.

*Matthew P. Clifton*, a director since 1995, has been with the Company for over twenty-five years and was elected as the Company's Chairman of the Board and Chief Executive Officer in April 2007. Mr. Clifton served as Chief Executive Officer from January 1, 2006 until April 2007. Mr. Clifton served as President of the Company from 1995 to January 1, 2006, and since March 2004, has served as Chairman of the Board and Chief Executive Officer of Holly Logistic Services, L.L.C. (HLS), the general partner of HEP Logistics Holdings, L.P., which is the general partner of Holly Energy Partners, L.P. (HEP), a Delaware limited partnership. The Company currently owns a 46% interest (including the general partner interest) in Holly Energy Partners, L.P.

*Leldon E. Echols*, a director since January 2009, is a private investor. From June 2000 to June 2006, Mr. Echols served as Executive Vice President and Chief Financial Officer of Centex Corporation. Before joining Centex Corporation, Mr. Echols was a managing partner in Arthur Andersen LLP's audit and business advisory practice from 1997 to 2000, and he held various other positions with the firm between 1978 and 1997. Mr. Echols received a bachelor of science degree in accounting from Arkansas State University and is a certified public accountant. He is currently a member of the boards of directors of three public companies: Trinity Industries, Inc. (NYSE: TRN), where he serves on the audit and human resources committees, and Crosstex Energy, L.P. (NASDAQ: XTEX) and a related company, Crosstex Energy, Inc. (NASDAQ: XTXI), where he serves on the audit committees. Mr. Echols also serves on the boards of directors of Roofing Supply Group Holdings, Inc. and Colemont Corporation, two private companies.

*W. John Glancy*, a director from 1975 to 1995 and from September 1999 to May 2008, is currently a consultant to the Company. Mr. Glancy served as Senior Vice President and General Counsel of the Company from April 1999 to May 2008. He also held the office of Secretary from April 1999 through February 2005, and from May 2007 through May 2008. From December 1998 to September 1999, he was Senior Vice President, Legal of the Company. From 1997

through March 1999, he practiced law in the Law Offices of W. John Glancy in Dallas.

*William J. Gray*, a director from September 1996 to May 2008, is a private consultant. He has served as a governmental affairs consultant for the Company since January 2003 and also served as a consultant to the Company from October 1999 through September 2001. Until October 1999, Mr. Gray was Senior Vice President, Marketing and Supply of the Company. In November 2006, Mr. Gray was elected to the New Mexico House of Representatives. Mr. Gray has served as a Director of HLS since April 15, 2008.



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*Marcus R. Hickerson*, a director since 1960, was a consultant to Centex Development Company from 1987 to 1999 and has been President of Waxahachie Community Development Corporation since October 1999.

*Thomas K. Matthews, II*, a director since 1978, was President of RepublicBank Houston from 1976 to 1985. Mr. Matthews also served as Executive Director of Republicbank Corporation from 1983 to 1985, and Vice Chairman of First City National Bank of Houston from 1985 to 1989. Mr. Matthews has been a financial consultant since 1989.

*Robert G. McKenzie*, a director since 1992, has been a financial consultant since January 2000. From January 1990 to December 1999, he was Executive Vice President and Chief Operating Officer of Brown Brothers Harriman Trust Company of Texas. He is a member of the board of directors of Brown Brothers Harriman Trust Company of Texas.

*Jack P. Reid*, a director since 1977, was a consultant to the Company from August 1999 through July 2002. Until August 1999, Mr. Reid was Executive Vice President, Refining, of the Company.

*Paul T. Stoffel*, a director since 2001, is Chairman of Triple S Capital Corp. and of Paul Stoffel Investments, engaged in public and private equity investments.

**Compensation of Directors**

For the year ended December 31, 2008, directors who are not employees of the Company or its subsidiaries were compensated as follows:

|   |                        |
|---|------------------------|
| Annual Retainer (payable in 4 quarterly installments)   | \$40,000               |
| Each Attended Board Meeting or Committee Meeting  | \$2,000                |
| Telephonic Special Board or Committee Meetings (under 30 Minutes)   | \$0                    |
| Telephonic Special Board or Committee Meetings (over 30 minutes)  | \$1,000 <sup>(1)</sup> |
| Annual Grant of Restricted Share Units <sup>(2)</sup>   | \$120,000              |
| Special Retainer for Chairman of Audit Committee  | \$15,000               |
| Special Retainer for Chairman of Compensation, Nominating/Corporate Governance or Public Policy Committee | \$10,000               |

Employees of the Company who also serve as directors are not entitled to any additional compensation for their services on the Board.

- (1) \$2,000 may be paid for telephonic meetings of longer duration as determined by the chairman of the meeting. As of the date of this proxy statement, no telephonic meetings have resulted in the payment of a \$2,000 meeting fee.
- (2) Restricted share unit grants are based upon the market closing price of our Common Stock on the day of the grant. With respect to the restricted share units, the restrictions generally lapse in 25% increments every three months and fully vest one year following the date of grant. Restricted share units are awarded on the date of our Annual Meeting of Stockholders. Accelerated vesting will occur upon a Change in Control, the Director's total disability or death, or the Director's normal retirement. Settlement of the vested restricted share units in shares of our Common Stock will only occur upon the earlier of: (a) the month following the Director's cessation of service as a member of the Board for any reason, (b) within thirty (30) days following the death of the Director, (c) within thirty (30) days following a Change in Control, or (d) on the third anniversary of the date of the grant. Until such time as the awards are settled, the Director shall be entitled to receive dividend equivalent rights, but

not voting rights, with regard to the Common Stock underlying the awards.

For purposes of director restricted stock units, a Change in Control shall occur as follows: (i) any Person or Group acquires stock of the Company that, together with stock held by such Person or Group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company (applies only when there is a transfer of stock of the Company (or issuance of stock of the Company) and stock in the Company remains outstanding after the transaction); (ii) any Person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group) ownership of stock

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of the Company possessing 35% or more of the total voting power of the stock of the Company; (iii) a majority of members of the Company's Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Company's Board prior to the date of the appointment or election; or (iv) any Person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. However, under subsection (i) if any Person or Group is considered to own more than 50% of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same Person or Group is not considered to cause a Change in Control, but an increase in the percentage of stock owned by any Person or Group as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of subsection (i). Under subsection (ii), if any Person or Group is considered to own 35% of the total voting power of the stock of the Company, the acquisition of additional stock by the same Person or Group is not considered to cause a Change in Control. No Change in Control shall be deemed to occur under subsection (iv) as a result of a transfer to a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock; an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company; a Person or Group that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company; or an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a person described in clause (iii) above.

For these purposes, the term "Person" shall mean an individual, corporation, association, joint stock company, business trust or other similar organization, partnership, limited liability company, joint venture, trust, unincorporated organization or government or agency, instrumentality or political subdivision thereof. The term "Group" shall have the meaning set forth in Treasury Regulation Section 1.409A-3(i)(5)(v)(B), or any successor thereto in effect at the time a determination of whether a Change in Control has occurred is being made. In addition, the provisions of Section 318(a) of the Internal Revenue Code of 1986, as amended (the "Tax Code"), regarding the constructive ownership of stock will apply to determine stock ownership; provided, that stock underlying unvested options (including options exercisable for stock that is not substantially vested) will not be treated as owned by the individual who holds the option.

During the year ended December 31, 2008, compensation was provided to the Company's outside directors as set forth below:

| Name   | Fees<br>Earned<br>or Paid<br>in Cash <sup>(1)</sup> | Stock<br>Awards <sup>(2)</sup> | All Other<br>Compensation | Total     |
|--|---|--------------------------------|---------------------------|-----------|
| Buford P. Berry  | \$98,000  | \$130,228                      | \$0                       | \$228,228 |
| William J. Gray (Director from<br>January 1, 2008 – May 8, 2008) | \$26,000  | \$52,308 <sup>(3)</sup>        | \$32,044 <sup>(4)</sup>   | \$110,352 |
| Marcus R. Hickerson  | \$65,000  | \$130,228                      | \$0                       | \$195,228 |
| Thomas K. Matthews, II   | \$94,000  | \$130,228                      | \$0                       | \$224,228 |
| Robert G. McKenzie   | \$99,000  | \$130,228                      | \$0                       | \$229,228 |
| Jack P. Reid   | \$59,000  | \$130,228                      | \$0                       | \$189,228 |
| Paul T. Stoffel  | \$74,000  | \$130,228                      | \$0                       | \$204,228 |

- (1) Represents fees earned or paid in cash for services as a director during 2008 including annual retainer fees, meeting fees, and committee chairmanship fees.
- (2) Reflects the dollar amount recognized for financial statement reporting purposes in the year ended December 31, 2008 in accordance with Statement of Financial Accounting Standards ( SFAS ) 123(R), and includes amounts for awards granted prior to 2008. In 2008, each of the directors listed except Mr. Gray, received an award of 2,934 restricted stock units with a May 8, 2008 grant date fair value of \$120,001 (based on the closing price of \$40.90 on the date of grant). Of the restricted stock units granted to each director, 25% vested on August 8, 2008, 25% vested on November 8, 2008, 25% vested on February 8, 2009, and the remaining 25% will vest on May 8, 2009. The fair value of each restricted stock unit grant is amortized over the

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vesting period. As of December 31, 2008, each of the directors listed above held 6,681 restricted stock units (except for Mr. Gray, who held 0 restricted stock units).

- (3) In accordance with the terms of the restricted stock unit awards, all of the restricted stock units held by Mr. Gray were settled and paid upon his cessation of service as a director on May 8, 2008.
- (4) Reflects amounts paid for consulting services for the calendar year 2008.

**Guidelines for Stock Ownership for Outside Directors**

Pursuant to the stock ownership guidelines approved by the Board in 2006, each director is expected to own shares of our Common Stock with a market value of \$105,000 from time to time. To the extent a director does not meet these guidelines he will be expected to retain 50% of the shares of Common Stock received upon settlement of his restricted share unit award, until such time as the stock ownership requirement is met. Currently none of our directors have violated the stock ownership guidelines.

**MEETINGS AND COMMITTEES OF DIRECTORS**

The Board is comprised of a majority of independent directors as defined in Section 303A.02 of the New York Stock Exchange ( NYSE ) listing standards. The directors determined by the Board to be independent under this standard are Buford P. Berry, Leldon E. Echols, Marcus R. Hickerson, Thomas K. Matthews, II, Robert G. McKenzie, Jack P. Reid and Paul T. Stoffel.

In determining that Mr. Hickerson is an independent director, the Board considered the fact that Mr. Hickerson's 55-year-old son, M. Neale Hickerson, is employed as a Vice President of the Company and certain subsidiaries, including Holly Logistic Services, L.L.C. From January 2004 to February 2005, M. Neale Hickerson's title as an officer of the Company was Vice President, Treasury and Investor Relations, and his current title is Vice President, Investor Relations. The Board's determination that the employment of M. Neale Hickerson would not interfere with Marcus R. Hickerson's ability to act independently from the management of the Company was based particularly on the fact that Marcus R. Hickerson satisfies all of the independence requirements of Section 303A.02(b) of the NYSE's listing standards. Additionally, the Board based its determination on the role played in the Company by M. Neale Hickerson and the fact that he is not an executive officer of the Company.

In determining that Mr. Reid is an independent director, the Board considered the fact that Mr. Reid's 48-year-old son, Willie D. Reid, is employed as a Manager of Applications Infrastructure Support of the Company. From May 1986 to present, Willie D. Reid has maintained various IT positions, and his current title is Manager, Applications Infrastructure Support of the Company. The Board's determination that the employment of Willie D. Reid would not interfere with Jack P. Reid's ability to act independently from the management of the Company was based particularly on the fact that Jack P. Reid satisfies all of the independence requirements of Section 303A.02(b) of the NYSE's listing standards. Additionally, the Board based its determination on the role played in the Company by Willie D. Reid and the fact that he is not an executive officer of the Company.

The Board held eight meetings during 2008. The Board has five principal standing committees: the Executive Committee, the Audit Committee, the Compensation Committee, the Nominating/Corporate Governance Committee, and the Public Policy Committee. Each of the committees is appointed by the Board. During 2008, each director attended at least 75% of the total number of meetings of the Board. During 2008, each director attended at least 75% of the meetings of each of the committees of the Board on which that director served. The Company does not have a policy requiring the Chairman of the Board or other directors to attend the Company's Annual Meeting. All of the Company's directors who were elected at the 2008 Annual Meeting of Stockholders attended that meeting.

The current members of the Executive Committee are Messrs. Clifton (Chairman), Reid and McKenzie. The Executive Committee of the Board has the authority of the Board, to the extent permitted by law and subject to any

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limitations that may be specified from time to time by the Board, for the management of the business and affairs of the Company between meetings of the Board. During 2008, the committee met five times.

The current members of the Audit Committee are Messrs. McKenzie (Chairman), Berry, Echols (effective January 1, 2009), Matthews, and Stoffel. The Audit Committee of the Board is responsible for monitoring the Company's internal accounting controls, selecting and engaging independent auditors, subject to ratification by the stockholders, reviewing quarterly and annual reports filed with the SEC, and reviewing certain activities of the independent auditors and their reports and conclusions. In addition, the committee selects persons to conduct internal audits of certain Company transactions and related financial controls and reviews the reports developed from such internal audits. During 2008, the committee met nine times. The Board has adopted a written charter for the Audit Committee, which is available on the Company's website at [www.hollycorp.com](http://www.hollycorp.com) and is available in print to any stockholder without charge upon written request to the Vice President, Investor Relations at: Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915. All members of the Audit Committee have been determined to be independent as independence is defined in Section 303A.02 of the NYSE's listing standards and of Rule 10A-3 under the Securities Exchange Act of 1934 (the Exchange Act). In accordance with Section 303A.07 of the NYSE's listing standards, the Board has determined that Mr. Echols' simultaneous service as a member of the audit committees of Trinity Industries, Inc., Crosstex Energy, L.P. and Crosstex Energy, Inc. will not impair Mr. Echols' ability to efficiently serve on the Company's Audit Committee because of the amount of time he has to devote to this responsibility and the expertise that he has in this area. The Board has also determined that Mr. McKenzie satisfies the requirements of the SEC regulations for an audit committee financial expert and has designated Mr. McKenzie as the Company's audit committee financial expert.

The current members of the Compensation Committee are Messrs. Berry (Chairman), Matthews and McKenzie. The Compensation Committee of the Board is responsible for the oversight of compensation programs and plans for the executive officers of the Company. The Compensation Committee determines the level of compensation paid to the Company's Chief Executive Officer and all other executive officers. The Compensation Committee is also responsible for establishing and overseeing the compensation program for non-employee directors who serve on the Board. As described above, all members of the Compensation Committee have been determined to be independent as independence is defined in Section 303A.02 of the NYSE's listing standards. During 2008, the Compensation Committee met thirteen times. The Board has adopted a written charter for the Compensation Committee, which is available on the Company's website at [www.hollycorp.com](http://www.hollycorp.com) and is available in print to any stockholder without charge upon written request to the Vice President, Investor Relations at: Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915.

The current members of the Nominating/Corporate Governance Committee are Messrs. Matthews (Chairman), Berry, McKenzie and Stoffel. The Nominating/Corporate Governance Committee of the Board is responsible for advising the Board concerning the appropriate composition of the Board and its committees (including identifying individuals qualified to serve on the Board and its committees), the selection of director nominees for each annual meeting of the Company's stockholders, the selection of executive officers and officers of the Company, and appropriate corporate governance practices. As described above, all members of the Nominating/Corporate Governance Committee have been determined to be independent as independence is defined in Section 303A.02 of the NYSE's listing standards. During 2008, the committee met five times. The Board has adopted a written charter for the Nominating/Corporate Governance Committee, which is available on the Company's website at [www.hollycorp.com](http://www.hollycorp.com) and is available in print to any stockholder without charge upon written request to the Vice President, Investor Relations at: Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915.

The current members of the Public Policy Committee are Messrs. Hickerson (Chairman), Echols (effective February 19, 2009), Reid and Stoffel. The Public Policy Committee of the Board is responsible for reviewing the Company's policies and procedures on matters of public and governmental concern that significantly affect the

Company, including but not limited to environmental, occupational health and safety, and equal employment opportunity matters. The committee is also responsible for recommending to management and the Board the formulation or modification of policies and procedures concerning such matters. During 2008, the committee met four times. As described above, all members of the Public Policy Committee have been determined to be independent as independence is defined in Section 303A.02 of the NYSE's listing standards.



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**DIRECTOR NOMINATION PROCEDURES**

All of the Company's directors are elected each year by its stockholders at the annual meeting of stockholders. The Board has specified the number of directors to be eight as of May 14, 2009. The Board is responsible for filling vacancies on the Board at any time during the year, and for nominating director nominees to stand for election at the annual meeting of stockholders. The Nominating/Corporate Governance Committee reviews all potential director candidates, and recommends potential director candidates to the full Board. Director candidates may be identified by current directors of the Company, employees of the Company or through other sources, including stockholders as described below under "Nomination of Directors by Stockholders." The Nominating/Corporate Governance Committee occasionally utilizes the services of search firms or consultants to assist in identifying and screening potential candidates. The Nominating/Corporate Governance Committee has an extensive diligence process for reviewing potential candidates, including an assessment of each candidate's independence under Section 303A.02 of the NYSE's listing standards and Rule 10A-3 under the Exchange Act, a candidate's relevant educational, business and financial experience, ability to read and understand financial statements, and other relevant factors, as described under "Selection of Directors Criteria" in the Company's Corporate Governance Guidelines, which can be found on the Company's website at [www.hollycorp.com](http://www.hollycorp.com) and a copy of the Corporate Governance Guidelines is available in print to any stockholder without charge upon written request to the Vice President, Investor Relations at: Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915. The full Board reviews and has final approval authority on all potential director candidates being recommended to the stockholders for election.

**NOMINATION OF DIRECTORS BY STOCKHOLDERS**

The Company does not have a formal policy by which its stockholders may recommend director candidates, but the Nominating/Corporate Governance Committee will consider candidates recommended by stockholders. A stockholder wishing to submit such a recommendation should send a letter to the Secretary of the Company at 100 Crescent Court, Suite 1600, Dallas, Texas 75201-6915. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Director Nominee Recommendation." The letter must identify the author as a stockholder and provide a brief summary of the candidate's qualifications based on the criteria described above under "Director Nomination Procedures" and in the Company's Corporate Governance Guidelines, as well as contact information for both the candidate and the stockholder. Candidates recommended by stockholders will be evaluated by the Nominating/Corporate Governance Committee in the same manner as other candidates submitted by directors, employees or obtained through other sources, although the members of the Nominating/Corporate Governance Committee may prefer candidates who are personally known to the existing directors and whose reputations are highly regarded. In evaluating proposed candidates, the Nominating/Corporate Governance Committee will consider all relevant qualifications as well as the needs of the Company in terms of compliance with the NYSE's listing standards and SEC rules.

**PRESIDING DIRECTOR AND COMMUNICATIONS WITH THE BOARD**

Robert G. McKenzie was selected to preside at regularly scheduled meetings of non-management directors. Persons wishing to communicate with the non-management directors are invited to email the Presiding Director at [presiding.director@hollycorp.com](mailto:presiding.director@hollycorp.com) or write to: Robert G. McKenzie, Presiding Director, c/o Secretary, Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, Texas 75201-6915. Although the Company has not to date developed formal processes by which stockholders may otherwise communicate directly with directors, the Company believes that its process with regard to communicating with non-management directors, and its informal process under which any communication sent to the Board in care of the Chief Executive Officer or Secretary of the Company is forwarded to the Board for consideration, serves the Board's and the stockholders' needs. There is no screening process, and all stockholder communications that are received by officers for the Board's attention are forwarded to the Board.



**Table of Contents****EXECUTIVE OFFICERS**

The following table sets forth information regarding the Executive Officers of the Company and certain of its subsidiaries for 2008:

| <b>Name</b>          | <b>Age</b> | <b>Title as of December 31, 2008</b>   |
|----------------------|------------|--|
| Matthew P. Clifton   | 57         | Chief Executive Officer  |
| David L. Lamp        | 51         | President  |
| Bruce R. Shaw        | 41         | Senior Vice President and Chief Financial Officer as of January 7, 2008  |
| George J. Damiris    | 49         | Senior Vice President, Supply and Marketing as of January 7, 2008  |
| Denise C. McWatters  | 49         | Vice President, General Counsel and Secretary from May 8, 2008   |
| Stephen J. McDonnell | 58         | Vice President and Chief Financial Officer from January 1, 2008 until January 6, 2008, and Assistant to the Chairman of the Board of the Company until January 1, 2009 |
| W. John Glancy       | 67         | Senior Vice President, General Counsel and Secretary from January 1, 2008 until May 8, 2008  |
| P. Dean Ridenour     | 67         | Vice President and Chief Accounting Officer from January 1, 2008 until January 6, 2008   |

*David L. Lamp*, was appointed President of the Company in November, 2007. Mr. Lamp joined the Company in January 2004 as Vice President, Refining Operations and was elected Executive Vice President, Refining and Marketing in November 2005. Prior to joining the Company, Mr. Lamp was Vice President of El Paso Energy Corporation ( El Paso ) and General Manager of El Paso's 250,000 barrels per day Aruba refinery. Prior to his position with El Paso, Mr. Lamp was employed by Koch Industries, where he served as Refinery Manager and EVP-Refining and Chemicals Operations. In 1998, Mr. Lamp served as Director of Operations for a large international chemical and fiber joint venture owned partially by Koch (KOSA).

*Bruce R. Shaw*, was appointed Senior Vice President and Chief Financial Officer of the Company on January 7, 2008. Between January 2007 and June 2007, Mr. Shaw was Vice President, Corporate Development for the Company. Mr. Shaw briefly left the Company in June 2007 and served as President of Standard Supply and Distributing Company, Inc. and Bartos Industries, Ltd., two companies that are affiliated with each other in the heating, ventilation and air conditioning industry. Mr. Shaw also served as Vice President, Special Projects for the Company from September 2007 through December 2007. Prior to that, Mr. Shaw served the Company in various positions including Vice President of Crude Purchasing and Corporate Development from February 2005 to February 2006, Vice President of Corporate Development from March 2004 to February 2005, Vice President of Marketing and Corporate Development from November 2003 to March 2004, Vice President of Corporate Development from October 2001 to November 2003 and Director of Corporate Development from June 1997 to January 2000. Mr. Shaw also served as Vice President, Corporate Development for HLS from August 2004 to January 2007 and as a director from April 2007 through April 2008.

*George J. Damiris*, was appointed Senior Vice President, Supply and Marketing of the Company in January 2008. Mr. Damiris joined the Company in June 2007 as Vice President, Corporate Development after an 18-year career with

Koch Industries, where he was responsible for managing various refining, chemical, trading, and financial businesses most recently with its INVISTA subsidiary as President of its Intermediates business from January 2006 to May 2007 and Vice President of Corporate Development from January 2004 to December 2005. Prior to INVISTA, he served as Managing Director - Capital Markets responsible for capital market transactions, Managing Director - Ventures responsible for venture capital investments, Vice President - Refining responsible for the Corpus Christi refining business, Vice President - Chemicals responsible for the commodity chemical business, Vice President - Supply & Trading responsible for natural gas, chemicals, and gasoline components, and

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Vice President Business Development for Refining. Prior to Koch, Mr. Damiris was employed by British Petroleum for 8 years in various engineering, operations, and business development positions.

*Denise C. McWatters*, was appointed Vice President, General Counsel and Secretary of the Company effective May 8, 2008. She joined the Company in October 2007 as Deputy General Counsel with more than 20 years of legal experience. Ms. McWatters served as the General Counsel of The Beck Group from May 2005 through October 2007. From 2002 through May 2005, Ms. McWatters practiced law in the Law Offices of Denise McWatters. Prior to such practice, Ms. McWatters was a shareholder in the predecessor firm to Locke Lord Bissell & Liddell LLP, served as Counsel in the legal department at Citigroup, N.A. and was a shareholder in the law firm of Cox Smith Matthews Incorporated.

*Stephen J. McDonnell*, was appointed Vice President and Chief Financial Officer of the Company in September 2001 and served the Company in that role until January 2008. From August 2000 to September 2001, he was Vice President, Finance and Corporate Development. Mr. McDonnell also served as Vice President and Chief Financial Officer for HLS from March 2004 to January 2009. Effective January 7, 2008, Mr. McDonnell was replaced by Bruce R. Shaw, who became Senior Vice President and Chief Financial Officer of the Company and of HLS and Mr. McDonnell became the Assistant to the Chairman of the Board of the Company and of HLS. Prior to joining the Company, Mr. McDonnell was employed by Central and South West Corporation as a vice president in the mergers and acquisitions area from 1996 to June 2000. Mr. McDonnell retired on January 1, 2009.

*P. Dean Ridenour*, was appointed Vice President and Chief Accounting Officer of the Company in December 2004. Beginning in October 2002, Mr. Ridenour began providing full-time consulting services to the Company, and in August 2004, Mr. Ridenour became a full-time employee and officer of the Company in the position of Vice President, Special Projects, serving in that position until December 2004. From April 2001 until October 2002, Mr. Ridenour was temporarily retired. From July 1999 through April 2001, Mr. Ridenour served as Chief Financial Officer and director of GeoUtilities, Inc., an internet-based superstore for energy, telecom and other utility services, which was purchased by AES Corporation in March 2000. He was employed for 34 years by Ernst & Young LLP, including 20 years as an audit partner, retiring in 1997. Mr. Ridenour also has served as a director of HLS since August 2004 and as Vice President and Chief Accounting Officer for HLS since January 2005. Effective January 7, 2008, Mr. Ridenour no longer served as an officer of the Company or HLS. Effective April 1, 2008, Mr. Ridenour ceased to be a Company employee but continues as a non-employee consultant to the Company under a two-year consulting agreement.

The Executive Officers named above were elected by the Board to serve in such capacities until their respective successors have been duly elected and qualified, or until their earlier death, resignation or removal from office. Biographical information on Messrs. Clifton and Glancy is set forth previously in this Proxy Statement under Directors.

**CODE OF BUSINESS CONDUCT AND ETHICS**

The Company has adopted a Code of Business Conduct and Ethics (the Code of Ethics ) that applies to all officers, directors and employees, including the Company s principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. A copy of the Code of Ethics and a description of all amendments adopted thereto in the last twelve months are posted on the Company s Internet website at [www.hollycorp.com](http://www.hollycorp.com) and a copy of the Code of Ethics is available in print to any stockholder without charge upon written request to the Vice President, Investor Relations at: Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915. If ever applicable, the Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of its Code of Ethics with respect to such officers, directors and employees by posting such information on the Company s Internet website.

**CORPORATE GOVERNANCE GUIDELINES**

The Company has adopted Corporate Governance Guidelines (the Governance Guidelines ) to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions. A copy of the Governance Guidelines is posted on the Company's Internet website at [www.hollycorp.com](http://www.hollycorp.com) and is available in print to any stockholder without charge upon written request to the Vice President, Investor Relations at: Holly Corporation, 100 Crescent Court, Suite 1600, Dallas, TX, 75201-6915.

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**COMPENSATION DISCUSSION AND ANALYSIS**

This compensation discussion and analysis ( CD&A ) provides information about our compensation objectives and policies for our principal executive officer, our principal financial officer and our other most highly compensated executive officers, and is intended to place in perspective the information contained in the executive compensation tables that follow this discussion. We provide a general description of our compensation program and specific information about its various components. Immediately following the CD&A is the Compensation Committee Report (the Committee Report ).

Our wholly-owned indirect subsidiary, HLS, is the general partner of HEP Logistics Holdings, L.P., which is the general partner of HEP, one of our consolidated subsidiaries and in which we indirectly own a 46% interest, including the 2% general partner interest. HLS employs its own executive officers, some of whom are also our officers. The board of directors of HLS, through its compensation committee, makes compensation decisions with respect to the executive officers of HLS for the services they provide as executive officers of HLS. The compensation of the executive officers of HLS is discussed in the Compensation Discussion and Analysis contained in HEP's Annual Report on Form 10-K for the year ended December 31, 2008. Messrs. Clifton and Shaw and, beginning in 2009, Ms. McWatters also receive compensation from HLS in the form of equity incentive plan compensation for the services these executives perform for HLS; however, the compensation information regarding these executives and discussed within this CD&A relates solely to the services these individuals provide directly to us.

Throughout this discussion, the following individuals are referred to as the Named Executive Officers and are included in the Summary Compensation Table:

Matthew P. Clifton, Chief Executive Officer and Chairman of the Board

David L. Lamp, President

Bruce R. Shaw, Senior Vice President and Chief Financial Officer as of January 7, 2008

George J. Damiris, Senior Vice President, Supply and Marketing

Denise C. McWatters, Vice President, General Counsel and Secretary as of May 8, 2008

Stephen J. McDonnell, Vice President and Chief Financial Officer from January 1, 2008 until January 6, 2008 and Assistant to the Chairman of the Board until January 1, 2009

W. John Glancy, Senior Vice President, General Counsel and Secretary from January 1, 2008 until May 8, 2008 and Director from January 1, 2008 until May 8, 2008 (Mr. Glancy continues to provide consulting services through a one year Consulting Agreement)

P. Dean Ridenour, Vice President and Chief Accounting Officer from January 1, 2008 until January 6, 2008 and retired on March 31, 2008 (Mr. Ridenour continues to provide consulting services through a two year Consulting Agreement)

A large number of executives are included in the group of our Named Executive Officers for the 2008 year due to various circumstances, including a high number of retirements and our alteration of certain job functions in connection with the replacement or new hiring of certain executive positions. The position of Senior Vice President, Supply and Marketing, has not historically been an executive officer position; however, as of March 23, 2009, our Board

designated Mr. Damiris as an executive officer. While Mr. Damiris did not serve in this executive position as of December 31, 2008, and is thus not technically required to be included in the executive compensation disclosures within this proxy statement, our Board has determined that because Mr. Damiris was both deemed an executive prior to the filing of this proxy statement, and will most likely be included in the Named Executive Officer group for the 2009 year, disclosure of his compensation for the 2008 year is consistent with the spirit of these disclosures.



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**Objectives of Compensation Program**

Our compensation program is designed to attract and retain talented and productive executives who are motivated to protect and enhance our long-term value for our stockholders. Our objective is to be competitive with our industry and encourage high levels of performance.

The Compensation Committee (the Committee), comprised entirely of independent directors, administers the compensation program. The Committee reviews and approves the compensation to be paid to the Named Executive Officers.

The Committee has not adopted any formal policies for allocating compensation among salaries, bonuses and equity compensation. The Committee, with the assistance of management, has sought to designate an appropriate mix of cash and long-term equity incentive compensation with the goal of providing sufficient current compensation to retain the Named Executive Officers, while at the same time providing incentives to the Named Executive Officers to exert their best efforts to maximize long-term value for both us and our stockholders. The Committee considers recommendations by management and many other factors in deciding on the final compensation factors that are appropriate for both us and for each Named Executive Officer. Except with respect to his own compensation, the Committee generally solicits the recommendations of our Chairman of the Board and Chief Executive Officer when the Committee considers its compensation determinations.

In addition to reviewing the recommendations of management and our Chief Executive Officer, prior to making compensation decisions for the 2008 year, the Committee also reviewed the total compensation provided to each of the Named Executive Officers during the 2007 year. The Committee, with the assistance of management, annually reviews each of the Named Executive Officers' proposed long-term incentive compensation to determine whether the executives are being provided with equity awards that are effective in motivating the Named Executive Officers to create long-term value for us. The Committee also takes into consideration the compensation of similarly situated executives in comparable businesses. These long-term equity incentives are designed to retain the executives during the period of time during which their performance is expected to impact our business and reward them in accordance with the success of those long-term goals and policies. The Committee has engaged Frederic W. Cook & Co., an outside consulting firm specializing in executive compensation, to advise the Committee on matters related to executive and non-employee director compensation. Frederic W. Cook & Co. provides the Committee with relevant market data, updates on related trends and developments, advice on program design, and input on compensation decisions for executive officers and non-employee directors. The consultant is independent, retained directly by the Committee, and provides no other services directly to us, however, Frederic W. Cook & Co. also provides independent compensation consulting services to HEP's compensation committee.

After reviewing both the internal evaluations of the Named Executive Officers and the market data provided by Frederic W. Cook & Co., the Committee believes that the 2008 compensation for the Named Executive Officers reflects an appropriate allocation of compensation between salary, bonuses and equity compensation.

**Overview of 2008 Executive Compensation Components**

The components of compensation for the Named Executive Officers in 2008 were:

base salary

annual incentive cash bonus compensation

long-term incentive equity compensation

retirement and benefit plans

Change in Control Agreements

***Base Salary***

Base salaries for Messrs. Clifton, Lamp, Shaw, Damiris, McDonnell and Glancy for 2008 were approved in February 2008 by the Committee based on each executive's position, level of responsibility and individual performance, our salary range for individuals at such executive's level, and market practices. The Committee also

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reviewed competitive market data relevant to each position provided by Frederic W. Cook & Co. This market data analysis is discussed in detail below under the paragraph titled "Review of Market Data." The Committee also reviewed Ms. McWatters' salary as part of their review of the compensation of all officers. Following a review of these various factors, the Committee determined that increases in base salaries were warranted for two of our executives that were also Named Executive Officers during the 2007 year. Mr. Clifton's base salary for 2008 was increased by approximately 21% over his 2007 salary so that his base salary more closely reflected the median range for other chief executive officer positions within our industry. The Committee also determined to increase Mr. Lamp's base salary for 2008 by approximately 20% due to his superior individual performance for us during the 2007 year and so that his base salary more closely reflected the median range for other comparable positions within our industry.

The salary amounts for each of the 2008 Named Executive Officers are set forth in the Summary Compensation Table.

***Annual Incentive Cash Bonus Compensation***

Payment with respect to any annual cash bonuses to Named Executive Officers is contingent upon the satisfaction of pre-established objective and subjective performance criteria as they apply to each individual Named Executive Officer. The amounts are disclosed in the Summary Compensation Table and described in greater detail in the narrative following the 2008 Grants of Plan-Based Awards table. Generally, payment with respect to any 2008 cash bonus for Named Executive Officers is contingent upon the satisfaction of the following criteria:

A portion of the Named Executive Officer's bonus will equal a pre-established percentage of that executive's base salary, and is earned only if we achieve a pre-tax net income (PTNI) goal (for 2008, this number was \$351,239,529). This component of the bonus will be subject to a minimum and maximum adjustment percentage, as individually set for each Named Executive Officer. If the PTNI goal is met, the Committee may use discretion in determining the percentage paid. Subject to the requirement that the PTNI goal is met, the adjustment of up to the multiple indicated in the section below titled "Annual Incentive Cash Bonus Compensation" times the employee's pre-established percentage may vary from year to year in the Committee's discretion.

A portion of the bonus is equal to a pre-established percentage of the employee's base salary, and is earned based on our performance for the year compared to that of our peers. The Committee determined that the following companies are the appropriate peer group for this performance component for calendar year 2008: Alon USA Energy, Inc., Cameron International Corporation, Crosstex Energy, Inc., El Paso Corporation, FMC Technologies, Inc., Frontier Oil Corporation, Marathon Oil Corporation, Murphy Oil Corporation, Sunoco, Inc., Tesoro Corporation, Valero Energy Corp. and The Williams Companies, Inc. (the "2008 Incentive Award Peer Group"). The 2008 Incentive Award Peer Group differed only slightly from the peer group of companies that comprised the 2007 peer group for the annual incentive performance component, as Giant Industries, Western Gas Resources, Maverick Tube Corporation and Hanover Compressor Company, each of which were included in the previous year's group, were either acquired or merged with other corporations. This peer performance review included the following factors: earnings per share, return on investment and return on assets. This component is subject to being adjusted to a minimum amount of 0% and a maximum amount of the multiple indicated in the section below titled "Annual Incentive Cash Bonus Compensation" times the employee's pre-established percentage. If the goal is met, the Committee retains discretion to reduce the percentage paid. Subject to the requirement that this goal is met, any reduction to the indicated multiple times the employee's pre-established percentage may vary from year to year in the Committee's discretion.

The Committee may also require that a portion of the Named Executive Officer's bonus will equal a pre-established percentage of base salary, based upon the executive's individual performance over the year. This component of the bonus will also be subject to a minimum and maximum adjustment percentage, as

individually set for each Named Executive Officer. For 2008, Messrs. Lamp, Shaw and Damiris and Ms. McWatters were subject to the individual performance requirement, and each of the executives were evaluated through an annual performance review completed in February 2009, which review considered how

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well the individuals performed various goals for 2008 and considered and evaluated each individual's performance for the year. Mr. Clifton's 2008 bonus was not subject to a formal individual component, though the Committee did elect to consider his performance for the year when determining his 2008 bonus to the extent the Committee elects to consider individual performance with respect to any discretionary bonus. Messrs. Glancy, McDonnell and Ridenour were not considered for 2008 bonuses due to the timing of their respective retirement dates.

The total bonus pool for all of our executives and non-bargaining unit employees is typically determined by the Committee after the end of each year or designated performance period, calculated pursuant to the achievement of the objective pre-established criteria described above and recommendations from management regarding possible discretionary adjustments. In determining the total bonus pool, the Committee reviews our performance during the previous year and the recommendation of management. Awards for executives for a given year are paid in cash in the first quarter of the following year. See the narrative following the 2008 Grants of Plan-Based Awards table below for a more detailed description of the actual bonuses awarded to the Named Executive Officers and earned in 2008.

Before the end of the first calendar quarter of each year, the Committee approves both the individual awards to be awarded for services provided in the previous year, and performance measures and targets to be used for the upcoming calendar year in determining the cash bonus amounts to be paid to the Named Executive Officers. Performance targets may be based on any factors as the Committee may determine. In setting performance targets, the Committee reviews recommendations from management.

In addition to the pre-defined performance criteria, the Committee has discretion to approve a decrease in a Named Executive Officer's bonus by using the same performance objectives for determining a bonus award, but noting that the objectives were not met or did not reach acceptable levels. In the case where the Committee believes that additional compensation is warranted to reward an executive for outstanding performance in a particular situation, the Committee may award additional bonuses in its discretion. In making the determination as to whether to exercise the discretion to either decrease an award or provide additional discretionary bonuses, the Committee reviews recommendations from management, except in the case of compensation for Mr. Clifton, for whom the Committee makes its determinations without management recommendations. For 2008, as in 2007 and 2006, the Committee approved additional discretionary bonuses as shown in the Summary Compensation Table. A key factor contributing to the decision of the Committee to award additional discretionary bonuses was a review and analysis of our financial results versus the refining industry. All bonuses were paid in March 2009.

The Committee also reviewed an analysis of competitive market data prepared by Fredric W. Cook & Co. comparing compensation of our Named Executive Officers, including the bonus payments, to our peers and market practices (see the paragraph below titled Review of Market Data for further discussion). As described in greater detail below, this peer group differs from the 2008 Incentive Award Peer Group. The annual incentive targets were assessed on the basis of total cash, including base salary and annual incentive payments. The Committee believes this analysis indicates that total cash compensation to our Named Executive Officers is appropriate for the level of responsibility that each of these officers hold as well as in comparison to compensation levels of comparable executives at our peer organizations.

The targets and actual annual incentive cash bonus compensation awarded, and subsequently earned and payable, for each of the Named Executive Officers is described in the narrative following the 2008 Grants of Plan-Based Awards table.

For 2009, several changes were made to the annual incentive cash bonus program in general, including increasing the weight on peer performance, tying the financial component to year-over-year net income results, and revising the performance peer group to focus on the refining industry. The peer group companies chosen for purposes of

establishing performance targets under the 2009 incentive awards are as follows: Alon USA Energy, Inc., CVR Energy, Inc., Delek US Holdings, Inc., Frontier Oil Corporation, Sunoco, Inc., Tesoro Corporation, Valero Energy Corp. and Western Refining, Inc. (the 2009 Incentive Award Peer Group ). The 2009 Incentive Award Peer Group better reflects the impact of the external economic conditions we are facing as a company and as an industry as a whole, and are also companies with which both management and investment analysts compare our financial results.

**Table of Contents*****Long-Term Incentive Equity Compensation***

Long-term equity compensation is the cornerstone of the total compensation program for our Named Executive Officers, and generally receives the heaviest weighting of all compensation elements, which is in line with our philosophy that an executive's compensation should create long-term incentives and generate value for our stockholders. It is intended to be a key element in driving the creation of value for investors and in attracting and retaining executives capable of effectively executing our business strategies. Equity awards are provided under the Long-Term Incentive Compensation Plan (the LTIP) that was adopted by the Board in October 2002 and approved by our stockholders at the December 2002 Annual Meeting and as amended and restated and approved by our stockholders at the May 2007 Annual Meeting. The LTIP was also amended in 2008, retroactively effective to January 1, 2005, to reflect the operation of the LTIP was in compliance with Section 409A of the Tax Code. Section 409A of the Tax Code required us to amend the LTIP's determination of a participant's disability under the LTIP, and to ensure that both the form and timing of certain payments would be compliant with the Tax Code and the regulations that accompany Section 409A of the Tax Code. Because the amendments necessary to make the LTIP compliant with Section 409A of the Tax Code were a result of a federal law, the LTIP allowed the Board to make these specific LTIP amendments without the approval of our stockholders. The LTIP is administered by the Committee.

While the LTIP permits awards of options, restricted stock, bonus stock, stock appreciation rights, phantom stock and performance shares, our long-term equity incentive program currently consists of granting primarily restricted stock and performance share unit awards to our Named Executive Officers as described in more detail below. In 2008, the total long-term incentive award for our Named Executive Officers was equally split 50% in restricted stock and 50% in performance share units. In addition, in connection with his appointment as Senior Vice President and Chief Financial Officer, on January 14, 2008 Mr. Shaw received an award of 8,200 shares of bonus stock. The shares of Common Stock awarded pursuant to this bonus were fully vested and non-forfeitable as of the date of grant. Mr. Shaw's was the only grant of bonus stock made in 2008. Although it is generally not the policy of the Committee to grant bonus stock to executive officers, Mr. Shaw's brief departure in 2007 resulted in the forfeiture of a significant amount of his equity holdings. When Mr. Shaw resumed employment with us, the Committee determined it was appropriate to provide Mr. Shaw with an award of fully-vested bonus stock.

In determining the appropriate amount and type of long-term equity incentive awards to be made, the Committee considers the Named Executive Officer's position, scope of responsibility, base salary, performance and market compensation information for executives in similar positions in similar companies, prior year awards, and recommendation of the Chief Executive Officer (except in regard to his own award). The awards are granted annually during the first quarter of the year. Our goal is to reward the creation of value and high performance with variable compensation dependent on that performance, thus the market data we have accumulated for use in determining other areas of compensation is used subjectively (and not as an objective factor) to confirm that our executives are paid appropriately relative to comparable executives of other similar companies. The peer data allows the Committee to verify that the compensation paid to executives is appropriate. The total compensation may be adjusted if the Committee observes a material variation from the market data (no specific formula is used to benchmark this data).

Messrs. Clifton and Shaw also receive long-term incentive compensation from HEP, in which we own a 46% interest (including the general partner interest). Please refer to Item 11 of HEP's Form 10-K for the fiscal year ended December 31, 2008 for further information concerning the compensation provided by HEP to Messrs. Clifton and Shaw.

**Restricted Stock Awards**

A restricted stock award is an award of shares of Common Stock which is subject to forfeiture upon termination of employment prior to the vesting of the award. The Committee may approve grants on the terms that it determines, including the period during which the award will vest. Under the LTIP, the Committee may condition vesting upon the achievement of specified financial objectives. The restricted stock will vest upon our change of control, unless provided otherwise by the Committee in the agreement granting the award. Named Executive Officers holding restricted stock have all the rights of a stockholder with respect to such restricted stock, including



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the right to receive all dividends paid with respect to such restricted stock and the right to vote with respect to the restricted stock, subject to limitations on transfer and disposition of the restricted stock during the restricted period. Restricted stock is subject to forfeiture in the event that the executive's employment or service relationship terminates, unless and to the extent that the Committee provides otherwise.

In 2008, Messrs. Clifton and Lamp were granted awards of restricted stock that will vest in three equal annual installments, and the awards also included performance requirements, one effect of which is to preserve the tax deductibility of the awards, as described in the Tax and Accounting Implications section below. Performance requirements were not placed on the restricted stock granted to any other Named Executive Officer largely because of the absence of issues as described in the Tax and Accounting Implications section below. Other specific terms for the restricted stock grants provided to each Named Executive Officer are described in the narrative following the 2008 Grants of Plan-Based Awards table.

While not affecting the 2008 restricted stock grants, the Committee determined that, beginning with the 2009 restricted stock grants, distributions to recipients of restricted stock grants with performance standards will be deferred until the applicable awards vest and such distributions shall be forfeited if such awards do not vest.

### **Performance Share Unit Awards**

A performance share unit is a notional phantom unit that entitles the executive to receive, as may be provided in the applicable agreement governing the award, Common Stock or a cash amount equal to the value of the stock upon the vesting of the performance share units. A performance share unit will be earned depending upon our performance versus that of the 2008 Incentive Award Peer Group. The terms of an award are determined by the Committee at the time of the award, including the number of units in each grant, the performance targets, the method of determining the amounts payable for different levels of performance, and the nature and timing of payment. The specific goals for the awards granted for the 2008 year are specified below in the footnotes to the tables titled 2008 Grants of Plan-Based Awards and Outstanding Equity Awards at Fiscal Year End. As with restricted stock awards, performance share units will vest upon a change of control (at the 200% threshold), unless provided otherwise by the Committee. Performance share units are also subject to forfeiture in the event that the executive's employment or service relationship terminates, unless and to the extent that the Committee provides otherwise.

In 2008, all of our Named Executive Officers except Mr. Ridenour were granted awards of performance share units. The performance period for such awards will be from January 1, 2008 through September 30, 2010 and the Named Executive Officer must be employed by us on December 31, 2010 to receive a settlement for the performance share unit awards. Other specific terms of the awards, including the performance criteria and goals, are described in the narrative in the section below titled 2008 Grants of Plan-Based Awards.

### **Review of Market Data**

Market pay practices are one of many factors considered by the Committee in setting compensation for the Named Executive Officers. We regularly compare our compensation program with market information regarding salary and annual incentive levels, long-term incentive award levels, and short and long term incentive programs. The purpose of this analysis is to provide a frame of reference in evaluating the reasonableness and competitiveness of compensation with the energy industry and to ensure that our compensation is generally comparable to companies of similar size and scope of operations. Market pay levels are obtained from various sources including published compensation surveys and information taken from the SEC filings of a number of similarly situated companies as compiled by our independent consultant. The Committee reviews and discusses market data and recommendations provided by Fredric W. Cook & Co., although the Committee retains the final decision making authority on all compensation decisions. The benchmark group that the Committee reviewed in the fall of 2007 in order to set 2008 compensation was

comprised of BJ Services Company, Cameron International Corporation, Crosstex Energy, Inc., El Paso Corp., FMC Technologies, Inc., Frontier Oil Corporation, Murphy Oil Corporation, Spectra Energy Corp., Tesoro Corporation, Western Refining, Inc. and Williams Companies, Inc. Due to the fact that the Committee makes annual decisions as to the suitability of companies for inclusion in our peer group and adjusts this group primarily following mergers and acquisitions within our industry, Exterran Energy Corp. was

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added to this peer company group when determining our 2009 compensation decisions, as it is the successor company of Hanover Compressor Company, previously a member of our peer group prior to its merger with Universal Compressor. CVR Energy Inc. was also included in our peer group for purposes of making compensation comparisons for the 2009 year because its executive compensation information became publicly accessible through its annual reports and proxy statement filings in the 2008 year, and the Committee determined that it was an appropriate comparison company in size and composition for use in our total compensation peer group. This peer group is slightly different than the 2008 Incentive Award Peer Group. The peer companies that were chosen for total compensation package comparability differ from the 2008 Incentive Award Peer Group because the performance component utilized for purposes of our annual incentive cash bonuses and performance share unit awards is not properly reflected solely through the companies utilized for total compensation purposes. The additional companies comprising the 2008 Incentive Award Peer Group are companies with which both management and investment analysts compare our financial results; however, those companies are often too large in size (as with Valero Energy Corp.) or significantly differ in ownership and management composition from us (as with Alon USA Energy, Inc.) for the Committee to include them as suitable comparisons when considering total compensation packages. For purposes of determining overall compensation for our executives, a central objective is to position pay levels at approximately the middle range of market compensation. As noted, however, market pay levels are only one factor considered, with pay decisions ultimately reflecting an evaluation of individual contribution and value to us.

Fredric W. Cook & Co. does not have approval authority for the ultimate compensation that is provided to employees. Instead, the consultant provides information and recommendations to the Committee and identifies the areas that do not appear to be consistent with the general practice of our peer group of companies (without setting specific benchmarks and using a discretionary standard). The consultant provided information and recommendations regarding compensation to management and to the Committee prior to the meetings when salaries were approved, bonuses were awarded and equity compensation was established.

**Role of Named Executive Officers in Determining Executive Compensation**

In making executive compensation decisions, the Committee solicits the recommendations of our Chief Executive Officer (except with respect to his own compensation) and various other members of management. Management facilitates the Committee's consideration of compensation for the Named Executive Officers by providing data for the Committee's review. This data includes, but is not limited to, our annual budget as approved by the Board, our financial performance versus that of our peers, performance evaluations of the Named Executive Officers (other than for the Chief Executive Officer and Chairman of the Board, who is evaluated by the Committee), compensation provided to the Named Executive Officers in previous years, and tax and accounting related considerations. Management provides the Committee with guidance as to how such data impacts pre-determined performance goals set by the Committee. When management considers a discretionary bonus to be appropriate for a Named Executive Officer (other than for the Chief Executive Officer and Chairman of the Board), it will suggest an amount and provide the Committee with management's rationale for such bonus. Given the day-to-day familiarity that management has with the work performed by the Named Executive Officers, the Committee values management's recommendations. However, the Committee makes all final decisions as to the compensation of the Named Executive Officers. For 2008, after consideration of management's recommendations regarding discretionary increases in the bonuses, and discussion regarding such increases, the Committee approved discretionary increases in some bonuses as shown in the column titled "Bonus" in the Summary Compensation Table.

**Table of Contents****Guidelines for Stock Ownership for Executives**

Under our stock ownership guidelines approved by the Board in 2006, each Named Executive Officer is expected to retain fifty percent of the after-tax shares received from restricted share and performance share units awards made in 2006 and subsequent years until his ownership equals the following levels:

| <b>Executive</b>     | <b>Shares Required</b> |
|----------------------|------------------------|
| Matthew P. Clifton   | 120,000 Shares         |
| David L. Lamp        | 40,000 Shares          |
| Bruce R. Shaw        | 20,000 Shares          |
| George J. Damiris    | 20,000 Shares          |
| Denise C. McWatters  | 10,000 Shares          |
| Stephen J. McDonnell | n/a - retired          |
| W. John Glancy       | n/a - retired          |
| P. Dean Ridenour     | n/a - retired          |

Shares owned from any source count toward meeting the guideline, but shares relating to unexercised stock options, if any, and unvested restricted shares and/or performance share units do not count. Currently none of our Named Executive Officers have violated the stock ownership guidelines.

**Tax and Accounting Implications**

We account for the equity compensation expense for our employees and executive officers, including our Named Executive Officers, under the rules of SFAS 123(R) which requires us to estimate and record an expense for each award of long-term incentive compensation over the vesting period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued.

With respect to Section 162(m) of the Tax Code and underlying regulations pertaining to the deductibility of compensation to named executive officers, we have adopted a policy to comply with such limitations to the extent practicable. The LTIP has been approved by our stockholders. As a result, certain elements of the LTIP are designed to provide performance-based incentive compensation which would be fully deductible under Section 162(m). Restricted stock and performance share unit grants made to Named Executive Officers in 2008 are intended to be fully deductible under Section 162(m). Some Named Executive Officers received restricted stock awards that do not contain performance-based incentives and may not comply with Section 162(m) if their compensation increases. Annual incentives are also generally intended to be compliant with Section 162(m). However, the Committee has determined that some flexibility is required, notwithstanding the statutory and regulatory provisions, in negotiating and implementing our incentive compensation programs. It has, therefore, retained the discretion to award some bonus payments based on non-quantitative performance measurements and other criteria that it may determine, in its discretion, from time to time.

In addition, Section 280G of the Tax Code prohibits the deduction of any excess parachute payment. Benefits payable under the Change in Control Agreements entered into with certain of our executives as well as accelerated vesting under restricted stock and performance share awards could result in excess parachute payments that are not deductible by us. Amounts payable and benefits available upon the occurrence of certain change in control transactions are described below in the section title Potential Payments Upon Termination or Change in Control.

***Retirement and Benefit Plans***

**The Holly Retirement Plan**

Our tax-qualified defined benefit retirement plan is described below in the narrative accompanying the Pension Benefits table. As of January 1, 2007, this plan was no longer made available to newly hired employees who were not represented under a collective bargaining agreement. Instead, as of January 1, 2007, new employees who were not represented under a collective bargaining agreement were automatically enrolled in the Thrift Plan to which we make an automatic contribution of 5% of the employee's eligible compensation on an annual basis, in addition to making matching contributions as described below. Most employees who are not represented by a collective

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bargaining agreement and were hired prior to January 1, 2007, were provided with a one-time choice to either continue earning benefits in the Holly Retirement Plan or to freeze benefits in the Holly Retirement Plan and begin receiving a 5% Automatic Thrift Plan Contribution. Regardless of their choice, these employees are eligible for matching contributions under the Thrift Plan.

### **Retirement Restoration Plan**

We have an unfunded Retirement Restoration Plan that provides for additional payments from us so that total retirement plan benefits for certain executives are not limited to the maximums set in the Tax Code or as allowed under the Qualified Retirement Plan. This Plan and the applicable Tax Code restrictions are more particularly described below in the section titled Pension Benefits.

### **Thrift Plan for Employees of Holly Corporation, its Affiliates and Subsidiaries**

Our Thrift Plan, which is a tax-qualified defined contribution plan, is offered to all our employees. Employees may, at their election, contribute to the Thrift Plan amounts from 0% up to a maximum of 50% of their eligible compensation. In 2008, for employees not covered by a collective bargaining agreement with labor unions, we matched employee contributions to the Thrift Plan up to 6% of their compensation (increased on January 1, 2007 from 4%). Eligible employees were also allowed to participate in the Automatic Thrift Plan Contribution feature, where 5% of eligible compensation, subject to the applicable Tax Code limits, is contributed in addition to the employee deferrals and employer matching contributions for that employee. Employee contributions that were made on a tax-deferred basis were generally limited to \$15,500 per year through the 2008 year (this amount will increase to \$16,500 for the 2009 year), with employees over 50 years of age able to make additional tax-deferred contributions of \$5,000 (which is increased to \$5,500 for the 2009 year). Employees may direct that Company matching contributions be invested in Common Stock. Prior to 2007, our contributions in the Thrift Plan did not vest until the earlier of three years of credited service or termination of employment due to retirement, disability or death. Beginning in 2007, matching contributions to employees not represented by a collective bargaining agreement vest immediately upon contribution to their accounts. The Automatic Thrift Plan Contribution is subject to a three-year cliff vesting period.

In 2008, each of the Named Executive Officers participated in the Thrift Plan and received matching contributions from us. These amounts are further described in the Summary Compensation Table.

### **Employee Stock Ownership Plan**

Many of our employees and eligible affiliates with at least one year of service, other than employees covered by collective bargaining agreements, participated in an Employee Stock Ownership Plan ( ESOP ) established in 1985. For the 1987 through the 1996 fiscal years, shares of Common Stock held by the ESOP were allocated to the accounts of participants for each fiscal year on the basis of payments of principal on the ESOP's ten-year installment note issued to us in connection with the ESOP's purchase of Common Stock from us. Shares were allocated to participants based on their eligible compensation. Participants' shares vested upon the earlier of five years' credited service or termination of employment due to retirement, disability or death. Effective August 1, 1999, the ESOP was merged into the Thrift Plan and each participant's ESOP account became a Company Stock ESOP Account in the Thrift Plan. Over the twelve months ending October 2002, shares in our Stock ESOP Account for each participant were gradually shifted to each participant's regular Thrift Plan account and consequently became subject to the participant's directions as to holding or selling such shares. Mr. Clifton is the only Named Executive Officer to have had an account under the previous ESOP that is now merged into the Thrift Plan.

### **ESOP Restoration Plan**

We adopted an ESOP restoration plan to provide additional benefits to executives whose allocations of shares of Common Stock from the ESOP for the 1995 and 1996 fiscal years were reduced because of the application of limitations of the Tax Code. The ESOP Restoration Plan provides for the grant to participants after the end of the 1995 and 1996 fiscal years of phantom shares equal in number to the number of shares not allocated to participants because of the limitations of the Tax Code. The phantom shares under the plan are unsecured rights to

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cash payments based on dividends paid on shares of Common Stock and on the market value of such shares at future dates. Payments based on market value of Common Stock are generally due 40 days after termination of employment or the date of final distribution to the officer under the ESOP unless the officer elects to defer payments to future dates that may not be later than 60 days after the officer's death or permanent disability.

A total of 61,880 phantom shares were granted to participants for the 1995 and 1996 fiscal years. As of December 31, 2008, Mr. Clifton was the only Named Executive Officer to hold phantom shares, and he held 10,720 phantom shares. The ESOP Restoration Plan was terminated effective January 2, 2009 and all outstanding balances were distributed in cash.

***Change in Control Agreements***

We have entered into Change in Control Agreements with our Named Executive Officers to provide for management continuity in the event of a change in control, and to assist in the recruitment and retention of executives. The Committee has determined that it is in the best interest of the stockholders to maintain these agreements in light of the depth of knowledge and experience of the Named Executive Officers and the need to ensure stable management during any potential change in control. The Change in Control Agreements are designed to provide benefits only in the event of a termination of employment following a change in control transaction, and do not provide any benefits without such a termination. The Committee believes that the agreements will permit our Named Executive Officers to focus their attention and energy on our business without any distractions regarding the effects of a change in control. The benefits contemplated by the agreements maximize stockholder value by allowing our Named Executive Officers to participate in an objective review of any proposed transaction. The material terms and a quantification of the potential amount payable under the Change in Control Agreements with the Named Executive Officers are set forth below in the section titled Potential Payments Upon Termination or Change in Control.

In addition, in connection with the retirement of Mr. McDonnell, in recognition of his past service to us, we entered into a Retirement Agreement with Mr. McDonnell. The Retirement Agreement provides for certain severance payments and continued medical benefits as described in detail below in the section titled Potential Payment Upon Termination or Change in Control.

We have not entered into any employment or severance agreements with any of the Named Executive Officers, other than these Change in Control Agreements, the Retirement Agreement with Mr. McDonnell, and the Consulting Agreements with Messrs. Ridenour and Glancy described below in footnotes 9 and 11 to the 2008 Outstanding Equity Awards at Fiscal Year End table.



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**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Holly Corporation Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Members of the Compensation Committee:

Buford P. Berry,

*Chairman*

Thomas K. Matthews, II

Robert G. McKenzie

**Table of Contents****2008 SUMMARY COMPENSATION TABLE**

The table below summarizes the total compensation paid to, awarded to, or earned by each of our Named Executive Officers in 2006, 2007 and 2008.

**Summary Compensation Table**

| Principal Position   | Year | Salary<br>(\$)            | Bonus<br>\$( <sup>(1)</sup> ) | Stock Awards<br>\$( <sup>(2)</sup> ) | Non-Equity<br>Incentive<br>Plan<br>Compensation<br>\$( <sup>(3)</sup> ) | Change in<br>Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>\$( <sup>(4)</sup> ) | All Other<br>Compensation<br>\$( <sup>(5)</sup> ) |
|--|------|---------------------------|-------------------------------|--------------------------------------|---|---|---|
|  |      |                           |                               |                                      |   |   |   |
| President,<br>Board and<br>Officer                               | 2008 | \$849,782 <sup>(6)</sup>  | \$203,000                     | \$1,451,336                          | \$405,000   | \$618,992   | \$13,800  |
|  | 2007 | \$727,833                 | \$0                           | \$2,991,000                          | \$2,008,000   | \$375,390   | \$13,500  |
|  | 2006 | \$647,000                 | \$0                           | \$3,496,000                          | \$1,746,900   | \$234,820   | \$8,400   |
|  | 2008 | \$510,649 <sup>(7)</sup>  | \$108,000                     | \$784,220                            | \$216,000   | \$74,257  | \$13,800  |
|  | 2007 | \$373,644                 | \$0                           | \$639,000                            | \$653,877   | \$41,546  | \$13,500  |
|  | 2006 | \$312,000                 | \$0                           | \$360,000                            | \$546,000   | \$25,107  | \$8,400   |
| President and Chief<br>Operating Officer from January 7,<br>2008 | 2008 | \$256,351 <sup>(8)</sup>  | \$81,500                      | \$1,253,806                          | \$82,500  | \$2,751   | \$25,300  |
|  | 2007 | \$252,053 <sup>(9)</sup>  | \$79,000                      | \$308,421                            | \$81,000  | \$0   | \$148,716 <sup>(11)</sup>                         |
| General Counsel and<br>Secretary from May 8, 2008                | 2008 | \$202,566 <sup>(12)</sup> | \$55,000                      | \$61,017                             | \$55,000  | \$0   | \$22,282  |
| Executive Vice President,<br>Officer                             | 2008 | \$249,002 <sup>(13)</sup> | \$0                           | \$277,702                            | \$0   | \$6,144   | \$13,800  |
|  | 2007 | \$258,240                 | \$300                         | \$282,000                            | \$260,700   | \$40,680  | \$13,500  |
|  | 2006 | \$245,136                 | \$0                           | \$169,000                            | \$234,000   | \$29,901  | \$8,400   |
| Executive Vice President,<br>Officer from January 1, 2009        | 2008 | \$169,724 <sup>(14)</sup> | \$150,000                     | \$(356,069)                          | \$0   | \$67,625  | \$119,681 <sup>(15)</sup>                         |
|  | 2007 | \$306,587                 | \$0                           | \$452,000                            | \$311,000   | \$79,465  | \$13,500  |
|  | 2006 | \$283,670                 | \$0                           | \$327,000                            | \$269,000   | \$37,997  | \$8,400   |

nd Secretary until

|               |      |                          |          |           |           |          |                           |
|---------------|------|--------------------------|----------|-----------|-----------|----------|---------------------------|
|               | 2008 | \$76,832 <sup>(16)</sup> | 0        | \$92,525  | \$0       | \$20,736 | \$161,828 <sup>(17)</sup> |
|               | 2007 | \$301,886                | \$70,488 | \$215,000 | \$310,512 | \$54,799 | \$13,500                  |
| Officer<br>08 | 2006 | \$257,298                | \$14,000 | \$108,000 | \$246,000 | \$38,139 | \$8,400                   |

- (1) Annual bonuses for services performed in 2008 were paid in March 2009. Amounts in this column reflect the discretionary bonus that is in excess of the pre-established maximum amount potentially payable pursuant to our annual incentive bonus arrangement reported in the Non-Equity Incentive Plan Compensation column. Mr. Glancy's bonus was paid in September 2008 following his June 30, 2008 retirement and reflects a discretionary bonus that was approved by the Committee.
- (2) Amounts reported for stock awards represent the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS No. 123(R), including the amount recognized with respect to the bonus stock award of 8,200 shares granted to Mr. Shaw. The amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Upon the cessation of Mr. Glancy's employment, he forfeited (a) 950 restricted shares previously granted to him on May 13, 2004, (b) 2,430 restricted shares previously granted to him on February 17, 2005, (c) 905 restricted shares previously granted to him on February 16, 2006, (d) 1,697 restricted shares previously granted to him on February 28, 2007, and

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(e) 2,722 restricted shares previously granted to him on March 7, 2008. As a result of these forfeitures of restricted shares, the compensation cost recognized in fiscal year ended 2008 for Mr. Glancy's restricted unit award was reduced by \$610,296. This reduction is reflected as a negative number in the 2008 Summary Compensation Table. See note 5 to our consolidated financial statements for the fiscal year ended December 31, 2008 included in our Annual Report on Form 10-K filed with the SEC on February 27, 2009 for a discussion of the assumptions used in determining the SFAS 123(R) compensation cost of these awards. With respect to performance share units awarded in 2008, the amount was based on an estimated payment of 150% of the award. The terms of the 2008 performance share unit awards and the 2008 restricted stock awards are provided below in the narrative following the 2008 Grants of Plan-Based Awards table. For additional information on restricted stock and performance share unit awards, see below under 2008 Outstanding Equity Awards at Fiscal Year End.

- (3) The annual bonus amounts for services performed in 2008 (paid in March 2009) reflect the pre-defined target percentages that were allocated to the components which are described below in greater detail in the narrative following the 2008 Grants of Plan-Based Awards table.
- (4) The amounts shown in this column reflect the following assumptions:

|                 | <b>December 31, 2006</b>                 | <b>December 31, 2007</b>                 | <b>December 31, 2008</b>                 |
|-----------------|--|--|--|
| Discount Rate   | 6.00%                                    | 6.40%                                    | 6.50%                                    |
| Mortality Table | RP2000 White Collar<br>Projected to 2020 | RP2000 White Collar<br>Projected to 2020 | RP2000 White Collar<br>Projected to 2020 |
| Reserving Table | 50% Male/50% Female                      | 50% Male/50% Female                      | 50% Male/50% Female                      |
| Retirement Age  | the later of current age or<br>age 62    | the later of current age or<br>age 62    | the later of current age or<br>age 62    |

- (5) For Messrs. Clifton, Lamp, McDonnell, Glancy and Ridenour, this reflects the employer matching contribution to the Thrift Plan which was subject to a tax code maximum limit of \$13,800. Since Mr. Shaw was rehired to the Company after January 1, 2007, his Holly Retirement Plan benefit was frozen as of May 31, 2007 when his employment ceased. Mr. Shaw was required to become a participant in the Automatic Thrift Plan Contribution feature of the Thrift Plan when he resumed employment with us. Both Ms. McWatters and Mr. Damiris were originally hired to the Company after January 1, 2007, and were therefore never eligible to participate in the Holly Retirement Plan, but instead participate in the Automatic Thrift Plan Contribution feature of the Thrift Plan. For Messrs. Shaw and Damiris and Ms. McWatters, this reflects the contribution made in 2008 by us to the Automatic Thrift Plan (subject to the tax code maximum limit of \$11,500) and includes employer matching contributions (subject to a tax code maximum limit of \$13,800). The 2008 Summary Compensation Table reflects the following contributions:

| <b>Name</b>        | <b>Automatic Thrift Plan</b> | <b>Employer Matching</b> |
|--------------------|------------------------------|--------------------------|
| Matthew P. Clifton | n/a                          | \$13,800                 |
| David L. Lamp      | n/a                          | \$13,800                 |
| Bruce R. Shaw      | \$11,500                     | \$13,800                 |

|                      |          |          |
|----------------------|----------|----------|
| George J. Damiris    | \$11,500 | \$13,800 |
| Denise C. McWatters  | \$10,128 | \$12,154 |
| Stephen J. McDonnell | n/a      | \$13,800 |
| W. John Glancy       | n/a      | \$11,762 |
| P. Dean Ridenour     | n/a      | \$5,828  |

- (6) This amount reflects approximately two months of salary at a rate of \$744,000 per year, and approximately ten months of salary at a rate of \$900,000 per year to reflect the change in Mr. Clifton's annual salary that was approved by the Committee in February 2008.

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- (7) This amount reflects approximately two months of salary at a rate of \$450,000 per year, and approximately ten months of salary at a rate of \$540,000 per year to reflect the change in Mr. Lamp's annual salary that was approved by the Committee in February 2008.
- (8) This amount reflects approximately two months of salary at a rate of \$237,144 per year, and approximately ten months of salary at a rate of \$275,000 per year to reflect the change in Mr. Shaw's annual salary that was approved by the Committee in February 2008.
- (9) Mr. Damiris was designated as an executive officer by the Board on March 23, 2009 and, therefore, was not a Named Executive Officer as of December 31, 2008. However, as described more fully in the CD&A above, because such designation occurred prior to the filing of this proxy statement and in order to include five current executives among our Named Executive Officers, Mr. Damiris is included.
- (10) This amount reflects approximately two months of salary at a rate of \$235,008 per year, and approximately ten months of salary at a rate of \$270,000 per year to reflect the change in Mr. Damiris' annual salary that was approved by the Committee in February 2008.
- (11) In connection with Mr. Damiris' relocation, in 2008 he also received a \$60,000 lump sum payment in lieu of reimbursement for moving expenses, and reimbursement of actual temporary living expenses equal to \$63,416.
- (12) This amount reflects approximately four and one-half months of salary at a rate of \$200,004 per year, and approximately seven and one-half months of salary at a rate of \$220,000 per year to reflect the change in Ms. McWatters' annual salary that occurred concurrently with her election to the office of Vice President, General Counsel and Secretary.
- (13) This amount reflects Mr. McDonnell's 2008 annual salary of \$260,700.
- (14) This amount reflects approximately two months of salary at a rate of \$311,304 per year, and approximately four months of salary at a rate of \$342,000 per year to reflect the change in Mr. Glancy's annual salary that was approved by the Committee in February 2008.
- (15) This amount reflects matching contributions made in 2008 by us to the Thrift Plan (see footnote 5 above) in the amount of \$11,762. This amount also includes consulting fees of \$107,919 for services provided by Mr. Glancy following his retirement pursuant to the one-year consulting agreement (executed for a term of July 1, 2008 through June 30, 2009), including the consulting fee due for January 2009 in the amount of \$15,417 which was processed and paid in December 2008.
- (16) This amount reflects Mr. Ridenour's 2008 annual salary of \$310,512.
- (17) This amount reflects matching contributions made in 2008 by us to the Thrift Plan (see footnote 5 above) in the amount of \$5,828. This amount also includes consulting fees of \$156,000 for services provided by Mr. Ridenour following his retirement pursuant to the two-year consulting agreement (executed for a term of April 1, 2008 through March 31, 2010), including the consulting fees paid due for January 2009 in the amount of \$15,600 which was processed and paid in December 2008.

**Table of Contents****2008 Grants of Plan-Based Awards**

The following table sets forth, for each Named Executive Officer, information about awards under our equity and non-equity incentive plans made during the year ending December 31, 2008.

|            | (b)<br>Grant<br>Date | Estimated Future Payouts<br>Under Non-Equity<br>Incentive Plan Awards <sup>(1)</sup> |               |                | Estimated Future Payouts<br>Under Equity Incentive Plan<br>Awards <sup>(2)</sup> |               |                       | (i)<br>All<br>other<br>Equity<br>Awards <sup>(3)</sup> | (j)<br>Base<br>Price<br>of<br>Awards<br>(\$/Unit) | Gr<br>Fa<br>o<br>A |
|------------|----------------------|--|---------------|----------------|--|---------------|-----------------------|--|---|--------------------|
|            |                      | (c)<br>Threshold   | (d)<br>Target | (e)<br>Maximum | (f)<br>Threshold   | (g)<br>Target | (h)<br>Maximum<br>(#) |  |   |                    |
| Clifton    |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 13,509        | 27,018                |  | n/a   | \$                 |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 13,509   | n/a   |                    |
| Incentives |                      | \$0  | \$810,000     | \$2,430,000    |  |               |                       |  |   |                    |
| amp        |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 7,690         | 15,380                |  | n/a   |                    |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 7,690  | n/a   |                    |
| Incentives |                      | \$0  | \$378,000     | \$945,000      |  |               |                       |  |   |                    |
| haw        |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 2,449         | 4,898                 |  | n/a   |                    |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 2,449  | n/a   |                    |
| Incentives |                      | \$0  | \$137,500     | \$275,000      |  |               |                       |  |   |                    |
| k          | 1/14/08              |  |               |                |  |               |                       | 8,200  |   |                    |
| Damiris    |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 3,266         | 6,532                 |  | n/a   |                    |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 3,266  | n/a   |                    |
| Incentives |                      | \$0  | \$135,000     | \$270,000      |  |               |                       |  |   |                    |
| McWatters  |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 1,476         | 2,952                 |  | n/a   |                    |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 1,476  | n/a   |                    |
| Incentives |                      | \$0  | \$88,000      | \$176,000      |  |               |                       |  |   |                    |
| McDonnell  |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 2,449         | 4,898                 |  | n/a   |                    |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 2,449  | n/a   |                    |
| Incentives |                      | \$0  | \$0           | \$0            |  |               |                       |  |   |                    |
| ancy       |                      |  |               |                |  |               |                       |  |   |                    |
| Units      | 3/07/08              |  |               |                | 0  | 3,266         | 6,532                 |  | n/a   |                    |
| Shares     | 3/07/08              |  |               |                |  |               |                       | 3,266  | n/a   |                    |
| Incentives |                      | \$0  | \$0           | \$0            |  |               |                       |  |   |                    |

|                   |         |     |     |     |   |   |     |
|-------------------|---------|-----|-----|-----|---|---|-----|
| Ridenour          |         |     |     |     |   |   |     |
| Performance Units | 3/07/08 |     |     | 0   | 0 | 0 | n/a |
| Shares            | 3/07/08 |     |     |     |   |   | 0   |
| Incentives        |         | \$0 | \$0 | \$0 |   |   | n/a |

- (1) Amounts shown in the Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns reflect a threshold, target, and maximum bonus award amount for each Named Executive Officer equal to the percentages set forth below in the section titled Annual Incentive Cash Bonus Compensation. Messrs. McDonnell, Glancy and Ridenour retired prior to the grant of 2008 Non-Equity Incentive Plan awards. Named Executive Officers that terminated employment or their status as an executive officer during 2008 were not granted this bonus.
- (2) Amounts shown in the Estimated Future Payouts Under Equity Incentive Plan Awards columns reflect the Committee's grant of performance share units as described below in the section titled Performance Share Unit Agreement Terms. The amount shown in column (f) reflects the minimum payment amount of 0%, the amount shown in column (g) reflects the target amount of 100% and, for disclosure purposes only, the amount shown in column (h) reflects the maximum payment level of 200%. Messrs. Glancy and Ridenour retired in 2008, and Mr. McDonnell retired in 2009. As a result, shares were affected, as described below in the section titled Outstanding Equity Awards at Fiscal Year End.



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- (3) The amounts in column (i) are the number of shares of restricted stock granted to each of our Named Executive Officers in 2008. The terms of the grants are described below in the section titled Restricted Stock Agreement Terms.
- (4) Represents the full grant date fair value determined pursuant to SFAS 123(R) and as reflected in our financial statements, based on the number of shares subject to the award and the closing price of the Common Stock, which was \$47.47, on the date prior to the grant for both restricted stock and performance share units. With respect to performance share units, this reflects an assumed payment of the maximum number of shares under the performance share unit award. With respect to the bonus stock awarded to Mr. Shaw, the grant date fair value was determined based on the 8,200 shares subject to the award and the closing price of the Common Stock, which was \$45.12 on the date of grant of the award.

The 2008 awards of performance share units and shares of restricted stock were issued under our Long-Term Incentive Compensation Plan. The material terms of these awards are described below. Defined terms impacting the accelerated settlement or vesting of these awards can be found below in Potential Payments Upon Termination or Change in Control. In addition to performance share units and shares of restricted stock granted to our Named Executive Officers, Mr. Shaw received an award of 8,200 shares of fully vested and non-forfeitable Common Stock on January 14, 2008.

**Performance Share Unit Agreement Terms**

Under the terms of the performance share unit agreements, dated March 7, 2008, that each of our Named Executive Officers executed pursuant to the LTIP, recipients of performance share units may earn from 0% to 200% of the number of units awarded. The performance share units represent an award for a designated performance and related service period. At the end of the required periods, recipients are entitled to a number of shares of Common Stock equal to a percentage of the awarded units as determined by reference to our performance on three performance measures compared to the performance by our defined peer group on the same three measures.

The three performance measures are earnings per share ( EPS ) growth, return on assets, and return on investment. Our performance comparison group is the 2008 Incentive Award Peer Group described above in the CD&A. If a member of the peer group ceases to be a public company during the performance period (whether by merger, consolidation, liquidation or otherwise) or it fails to file financial statements with the SEC in a timely manner, it will be treated as if it had not been a peer group member for the entire performance period.

EPS growth means the compound annual growth rate in earnings per share before extraordinary items and discontinued operations, and after the effect of conversion of convertible preferred stock, convertible debentures, and options and warrants that have been identified as common stock equivalents. Return on assets means the net income before extraordinary items, divided by total assets (i.e., the sum of current assets, net plant, and other non-current assets). Return on investment means the net income before extraordinary items, divided by the sum of long-term debt, preferred stock and total common equity. Each of these performance measures shall exclude unusual or non-recurring items and the cumulative effect of tax and accounting changes

The number of shares of Common Stock payable is equal to the result of multiplying the number of performance share units granted by the average of the percentile ranking of our performance on the three performance measures over the performance period as compared to the performance comparison group's performance on such measures over the performance period, multiplied by two (the Peer Group Performance Percentage ). The average is determined by adding our percentile ranking on each performance measure and dividing the sum by three.

The performance period runs from January 1, 2008 until September 30, 2010. If an award recipient's employment terminates prior to December 31, 2010 due to a voluntary separation (including retirement but not including a resignation in connection with a Special Involuntary Termination) or Cause, as those terms are defined below, he or she will forfeit his or her award. In the event of an award recipient's death or total and permanent disability (as determined by the Committee in its sole discretion) the recipient shall forfeit a number of performance share units equal to the percentage that (i) the number of full months in the period beginning on the date of termination due to death or total and permanent disability and ending on December 31, 2010 (ii) bears to 36. Any remaining units that are not vested will become vested, and the amount payable to the recipient shall be equal to

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the result of multiplying the number of remaining performance share units by the Peer Group Performance Percentage as of December 31, 2010. In the event of an award upon the recipient's death or total and permanent disability, the Committee, in its sole discretion, may make a payment assuming a performance percentage of up to 200% instead of the prorated number.

If an award recipient's employment is terminated due to a Special Involuntary Termination, before December 31, 2010, the award recipient shall remain eligible to receive full payment of the performance share units at the normal vesting date (i.e., he or she shall be treated as remaining continuously employed through December 31, 2010). Special Involuntary Termination means the occurrence of either of the following within 60 days prior to or at any time after a change in control: (i) termination of the award recipient's employment for any reason other than Cause; and (ii) resignation by the award recipient within 90 days after an Adverse Change (as defined below) in the terms of the award recipient's employment.

Cause and Adverse Change are defined below under Potential Payments Upon Termination or Change in Control in the discussion of long-term equity incentive awards.

The change in control provisions of performance share units are described below under Potential Payments Upon Termination or Change in Control.

In 2008, we amended the performance share unit agreements to bring the agreements into compliance with section 409A of the Tax Code.

Additional information regarding the performance share units can be found above under Compensation Discussion and Analysis Overview of 2008 Executive Compensation Components Long-Term Incentive Equity Compensation.

**Restricted Stock Agreement Terms**

The 2008 restricted stock agreements contain a Company performance standard that applies only to Messrs. Clifton, Lamp and Glancy. Restricted stock awards granted to Ms. McWatters and Messrs. McDonnell, Shaw and Damiris are not subject to performance conditions and vest in three substantially equal annual installments. The restricted stock agreements require that the award recipient be continuously employed with us or a subsidiary through the applicable vesting date, except as provided below. The first one-third of the restricted stock awards for Ms. McWatters and Messrs. McDonnell, Shaw and Damiris vested in January 2009, and the remaining two-thirds will vest on January 1, 2010 and January 1, 2011, provided he or she continues employment with us. Mr. McDonnell retired from employment with us on January 1, 2009, resulting in the forfeiture of two-thirds of his restricted stock award pursuant to the terms of the restricted stock agreement.

Under the terms of the 2008 restricted stock agreements for Messrs. Clifton and Lamp, one third of the restricted shares vested in February, 2009 when the satisfaction of our performance standard was confirmed by the Committee. Except in the case of early termination of employment (i) after December 31, 2009, another one-third of these restricted shares will vest if our average Quarterly Adjusted Net Income (defined below) per diluted share is at least \$1.00 for the period beginning October 1, 2008 and ending at the end of the quarter being considered (with the earliest possible ending quarter being the fourth quarter of 2009 and the last possible ending quarter being the fourth quarter of 2011), and (ii) after December 31, 2010, the remaining one-third of the restricted stock will vest if our average Quarterly Adjusted Net Income per diluted share is at least \$1.00 for the period beginning October 1, 2008 and ending at the end of the quarter being considered (with the earliest possible ending quarter being the fourth quarter of 2010 and the last possible ending quarter being the fourth quarter of 2011). Quarterly Adjusted Net Income means net income for a quarter, as reported by us in our filings with the SEC, adjusted to exclude the effects of recoveries or liabilities resulting from litigation and administrative proceedings involving us and our subsidiaries. Dividends are

paid on all restricted stock awards granted in 2008 to the same extent paid to stockholders generally.

In the event of an award recipient's death, total and permanent disability (as determined by the Committee in its sole discretion) or, as to Ms. McWatters and Messrs. McDonnell, Shaw and Damiris only, retirement after attaining age 62 (or retirement after attaining an earlier retirement age approved by the Committee in its sole discretion), the recipient shall forfeit a number of shares of restricted stock equal to (i) the total number of shares of restricted stock initially subject to the award times (ii) the percentage that the period of full months beginning on the

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first calendar month following the date of death, disability or retirement and ending on December 31, 2010 bears to 36. Any remaining shares of restricted stock that are not vested will become vested, but any fractional shares will be forfeited. In its sole discretion, the Committee may decide to vest all of the shares of restricted stock in lieu of the prorated number. Award recipients are stockholders with respect to all of the shares of restricted stock and have the right to receive all dividends and other distributions paid with respect to such shares of restricted stock.

As to Ms. McWatters and Messrs. McDonnell, Shaw, and Damiris only, pursuant to their respective restricted stock agreements, in the event his or her employment is terminated due to a Special Involuntary Termination before the lapse of all restrictions on the restricted stock award, all restrictions shall lapse and the shares shall become fully vested and delivered to the recipient as soon as practicable thereafter. Under Ms. McWatters' and Messrs. McDonnell's, Shaw's, and Damiris' restricted stock agreements, Special Involuntary Termination has the same meaning as defined above under Performance Share Unit Agreement Terms, except the term Adverse Change means (i) a change in the city in which the award recipient is required to work regularly, (ii) a substantial increase in travel requirements of employment, (iii) a substantial reduction in duties of the type previously performed by the recipient, or (iv) a significant reduction in compensation or benefits that does not apply generally to executives.

As to Messrs. Clifton, Lamp, and Glancy, pursuant to their respective restricted stock agreements, in the event his employment is terminated due to a Special Involuntary Termination (as defined above under Performance Share Unit Agreement Terms) before the lapse of all restrictions on the restricted stock award, the recipient shall remain eligible to vest in all remaining shares of restricted stock (whether or not the continuous employment requirement has been satisfied), provided that such shares of restricted stock shall only become actually vested if we achieve the performance standard during the applicable period. Any shares of restricted stock that remain eligible to vest as of the recipient's termination of employment, but that have not vested as of December 31, 2011, shall be forfeited. In the event his employment is terminated for any other reason before the lapse of all restrictions on the restricted stock award, the recipient shall remain eligible to vest in any shares of restricted stock with respect to which the continuous employment requirement has been satisfied. In addition, the recipient shall also remain eligible to vest in a number of shares of restricted stock equal to the product of one-third of the shares awarded pursuant to the agreement, times a fraction, the numerator of which is the number of full months the recipient was employed during the year of termination (counting the month of termination as a full month) and the denominator of which is 12, provided the performance standard is met during the applicable period. The shares of restricted stock not eligible to vest shall be forfeited. Mr. Glancy's retirement on June 30, 2008 resulted in the forfeiture of five-sixths of his restricted share award pursuant to the provisions of his restricted stock grant agreement. The remaining one-sixth of Mr. Glancy's award (544 shares) vested when the satisfaction of the performance standard was confirmed by the Committee.

While not affecting the 2008 restricted stock agreement grants, the Committee determined that, beginning with the 2009 restricted stock agreement grants, distributions for recipients of restricted stock agreement grants with performance standards will be deferred until the applicable awards vest and such distributions shall be forfeited if such awards do not vest. Assuming the Quarterly Adjusted Net Income standard is met as set forth in each case above, the awards that are subject to performance conditions will become vested on the date that the Committee certifies that we have met the applicable standards.

The termination and change in control provisions of restricted stock awards are described below under the section titled Potential Payments Upon Termination or Change in Control.

Additional information regarding the restricted stock awards can be found above under Compensation Discussion and Analysis Overview of 2008 Executive Compensation Components Long-Term Incentive Equity Compensation.

**Table of Contents****Annual Incentive Cash Bonus Compensation**

The bonuses that are available to our Named Executive Officers as annual incentive bonuses are based upon pre-set percentages of salary, achieved by reaching certain target performance levels. Messrs. McDonnell, Glancy and Ridenour are not included in the chart since they were not employed by us on the date bonuses were awarded and were not eligible for Annual Incentive Cash Bonus Compensation. Mr. McDonnell's retirement agreement (discussed in footnote (6) to the table in the section titled "Potential Payments Upon Termination or Change in Control") provided that he would be eligible for a 2008 bonus, but the Committee determined that a 2008 bonus was not appropriate when considering the total compensation provided to Mr. McDonnell during fiscal year ended 2008 and pursuant to the terms of the retirement agreement. A description of the pre-established performance criteria utilized in 2008 can be found above in the CD&A under the section titled "Annual Incentive Cash Bonus Compensation." The following chart reflects the target percentages that were set for our Named Executive Officers and the actual percentages awarded to each individual. Potential maximum payments of Annual Incentive Cash Bonus Compensation for each of the following criteria are 200% of the target percentages set forth in the following table:

| <b>Name</b>         | <b>Percent of Salary Based on PTNI</b> | <b>Percent of Salary Based on Peer Financial Results</b> | <b>Percent of Salary Based on Individual Performance</b> | <b>Maximum Multiplier (multiple of target)</b> | <b>Percent of Salary Maximum Possible Incentive Compensation<sup>(1)</sup></b> |
|---------------------|--|--|--|--|--|
| Matthew P. Clifton  | 45%                                    | 45%  | 0%   | 3x   | 270%   |
| David L. Lamp       | Actual 0%                              | Actual 30%   | Actual 10%   | 2.5x   | 175%   |
| Bruce R. Shaw       | Actual 0%                              | Actual 20%   | Actual 10%   | 2x   | 100%   |
| George J. Damiris   | Actual 0%                              | Actual 20%   | Actual 10%   | 2x   | 100%   |
| Denise C. McWatters | 15%                                    | 15%  | 10%  | 2x   | 80%  |

(1) As described above, the Committee has discretion to award more or less than the maximum possible incentive compensation by either reducing the maximum percentage or by awarding additional bonus amounts in addition to the incentive cash compensation.

Additional information regarding cash bonus compensation can be found above under "Compensation Discussion and Analysis - Overview of 2008 Executive Compensation Components - Annual Incentive Cash Bonus Compensation."

**Table of Contents****2008 Outstanding Equity Awards at Fiscal Year End**

The following table reflects outstanding stock options, performance share units and restricted stock held by our Named Executive Officers as of December 31, 2008, including awards that were granted prior to 2008.

| (a)  | Option Awards  |  | (d)                                | (e)                                   | (f)  | Stock Awards  |   |   |
|--|--|--|------------------------------------|---------------------------------------|--|---|---|---|
|  | (b)  | (c)  |                                    |                                       |  | (g)   | (h)   | (i)   |
| Name   | Number of Securities Underlying Unexercised Options Exercisable (#) <sup>(1)</sup> | Number of Securities Underlying Unexercised Options Not Exercisable (#) <sup>(1)</sup> | Exercise Price (\$) <sup>(2)</sup> | Option Expiration Date <sup>(3)</sup> | Number of Shares or Units of Stock That Have Not Vested (#) <sup>(4)</sup> | Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(5)</sup> | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) <sup>(6)(7)</sup> | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>(8)</sup> |
| Matthew P. Clifton,<br>Chief Executive<br>Officer and<br>Chairman of the Board | n/a  | n/a  | n/a                                | n/a                                   | n/a  | n/a   | 140,662   | \$2,564,268   |
| David L. Lamp,<br>President  | n/a  | n/a  | n/a                                | n/a                                   | 5,201  | \$94,814  | 60,444  | \$1,101,894   |
| Bruce R. Shaw,<br>Senior Vice President<br>and Chief<br>Financial Officer      | n/a  | n/a  | n/a                                | n/a                                   | 13,273   | \$241,967   | 19,826  | \$361,428   |
| George J. Damiris,<br>Senior Vice President,<br>Supply and Marketing           | n/a  | n/a  | n/a                                | n/a                                   | 4,899  | \$89,309  | 11,432  | \$208,405   |
| Denise C. McWatters,<br>Vice President, General<br>Counsel and Secretary       | n/a  | n/a  | n/a                                | n/a                                   | 1,476  | \$26,907  | 2,952   | \$53,815  |
| Stephen J. McDonnell,  | n/a  | n/a  | n/a                                | n/a                                   | 10,256   | \$186,967   | 14,642  | \$266,924   |

Vice President and  
Chief  
Financial Officer

V. John Glancy,  
Senior Vice President,  
General  
Counsel and  
Secretary<sup>(9)</sup> <sup>(10)</sup>

|        |     |        |          |     |     |        |           |
|--------|-----|--------|----------|-----|-----|--------|-----------|
| 15,000 | n/a | \$2.98 | 3/9/2011 | n/a | n/a | 14,070 | \$256,496 |
|--------|-----|--------|----------|-----|-----|--------|-----------|

. Dean Ridenour,  
Vice President and  
Chief  
Accounting Officer<sup>(11)</sup>

|     |     |  |     |       |          |       |           |
|-----|-----|--|-----|-------|----------|-------|-----------|
| n/a | n/a |  | n/a | 3,368 | \$61,399 | 8,822 | \$160,825 |
|-----|-----|--|-----|-------|----------|-------|-----------|

- (1) All outstanding option awards vested over a five year period in 20% increments on each yearly anniversary of the date of grant of the option.
- (2) All option exercise prices and number of options have been adjusted since their respective dates of grant for our July 2001, August 2004 and June 2006 stock splits, to the extent applicable.
- (3) Options generally expire ten years from the date of grant (the expiration date). If the recipient's employment terminates because of death, permanent disability or normal retirement, as such terms are defined in the applicable option award agreements, the option is generally exercisable in full until the earlier of the option's original expiration date or the two year anniversary of the date of termination. If the recipient's employment is terminated for cause, as defined in the applicable option award agreement, the option immediately ceases to be exercisable. If the recipient's employment terminates for any other reason, the option is exercisable until the earlier of the option's original expiration date or the one year anniversary of the date of termination.



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- (4) The following chart sets forth by grant date the number of unvested restricted stock awards (with no performance standards) awarded to our Named Executive Officers that remained outstanding as of December 31, 2008:

| <b>Name</b>             | <b>May 2004<br/>Restricted<br/>Stock(a)</b> | <b>February<br/>2005<br/>Restricted<br/>Stock(b)</b> | <b>February<br/>2006<br/>Restricted<br/>Stock(c)</b> | <b>February<br/>2007<br/>Restricted<br/>Stock(d)</b> | <b>June 2007<br/>Restricted<br/>Stock(e)</b> | <b>December<br/>2007<br/>Restricted<br/>Stock(f)</b> | <b>March<br/>2008<br/>Restricted<br/>Stock(g)</b> |
|-------------------------|---|--|--|--|--|--|---|
| David L. Lamp           | 2,534                                       | 2,667  | 0  | 0  | 0  | 0  | 0   |
| Bruce R. Shaw           | 0   | 0  | 0  | 0  | 0  | 10,824   | 2,449   |
| George J.<br>Damiris    | 0   | 0  | 0  | 0  | 1,633  | 0  | 3,266   |
| Denise C.<br>McWatters  | 0   | 0  | 0  | 0  | 0  | 0  | 1,476   |
| Stephen J.<br>McDonnell | 2,934                                       | 2,400  | 776  | 1,697  | 0  | 0  | 2,449   |
| P. Dean<br>Ridenour     | 0   | 1,333  | 904  | 1,131  | 0  | 0  | 0   |

- (a) Restricted stock awards with no performance standards (as adjusted for the August 2004 and June 2006 stock splits) were made in May 2004. Pursuant to the terms of the grants, one-third of the restricted stock was fully vested and non-forfeitable in January 2007, and an additional one-third of the restricted stock was fully vested and non-forfeitable in January 2008. The remaining one-third of the restricted stock vested immediately after December 31, 2008.
- (b) Restricted stock awards with no performance standards (as adjusted for the June 2006 stock split) were made in February 2005. Pursuant to the terms of the grants, one-third of the restricted stock vested in January 2008, and one-third of the restricted stock vested immediately after December 31, 2008. Except in the case of early termination, the remaining one-third of the restricted stock will vest immediately after December 31, 2009.
- (c) Restricted stock awards with no performance standards (as adjusted for the June 2006 stock split) were made in February 2006. Pursuant to the terms of the grants, one-third of the restricted stock was fully vested and non-forfeitable in January 2007, and an additional one-third of the restricted stock was fully vested and non-forfeitable in January 2008. The remaining one-third of the restricted stock vested immediately after December 31, 2008.
- (d) Restricted stock awards with no performance standards were made in February 2007. Pursuant to the terms of the grants, one-third of the restricted stock vested in January 2008, and one-third of the restricted stock vested immediately after December 31, 2008. Except in the case of early termination, the remaining one-third of the restricted stock will vest immediately after December 31, 2009.
- (e) An award of 2,450 shares of restricted stock was made in June 2007 following the commencement of Mr. Damiris' employment with the Company. Pursuant to the terms of the grant, one-third of the restricted stock vested in January 2008, and one-third of the restricted stock vested immediately after December 31, 2008. Except in the case of early termination, the remaining one-third of the restricted stock will vest immediately after December 31, 2009.

- (f) An award of 5,380 shares of restricted stock (with no performance standards) was made to Mr. Shaw in December 2007. One-half of those restricted shares vested on January 1, 2009, and the remaining one-half of the restricted shares will vest on January 1, 2010, if Mr. Shaw remains employed with the Company on that date. A second award of 5,444 shares of restricted stock (with no performance standards) was also made to Mr. Shaw in December 2007. One-third of those 5,444 restricted shares vested on January 1, 2009. Except in the case of early termination, (i) another one-third of the 5,444 restricted shares will vest on January 1, 2010, and (ii) the remaining one-third of the 5,444 restricted shares will vest on January 1, 2011.
  - (g) Restricted stock awards with no performance standards were made in March 2008. The vesting dates for these awards are described above in the narrative disclosures in the section titled Restricted Stock Agreement Terms.
- (5) Based upon the closing market price of our Common Stock on December 31, 2008, which was \$18.23 per share.

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- (6) For purposes of the Outstanding Equity Awards at Fiscal Year End table, all performance awards have been calculated assuming the maximum threshold is reached.
- (7) The following chart sets forth by grant date the number of equity incentive plan awards awarded to our Named Executive Officers that remained outstanding and unvested as of December 31, 2008:

**Restricted Stock and Performance Share Unit Grants**

| Name                 | May 2004            | February 2005       | February 2006       |                | February 2007       |                | December 2007  | March 2008          |                |
|----------------------|---------------------|---------------------|---------------------|----------------|---------------------|----------------|----------------|---------------------|----------------|
|                      | Restricted Stock(a) | Restricted Stock(b) | Restricted Stock(c) | Share Units(d) | Restricted Stock(e) | Share Units(f) | Share Units(g) | Restricted Stock(h) | Share Units(i) |
| Matthew P. Clifton   | 22,034              | 12,300              | 5,232               | 15,698         | 7,293               | 10,940         | 0              | 13,509              | 13,509         |
| David L. Lamp        | 0                   | 0                   | 2,998               | 8,992          | 4,098               | 6,147          | 0              | 7,690               | 7,690          |
| Bruce R. Shaw        | 0                   | 0                   | 0                   | 0              | 0                   | 0              | 7,464          | 0                   | 2,449          |
| George J. Damiris    | 0                   | 0                   | 0                   | 0              | 0                   | 0              | 0              | 0                   | 3,266          |
| Denise C. McWatters  | 0                   | 0                   | 0                   | 0              | 0                   | 0              | 0              | 0                   | 1,476          |
| Stephen J. McDonnell | 0                   | 0                   | 0                   | 2,326          | 0                   | 2,546          | 0              | 0                   | 2,449          |
| W. John Glancy(j)    | 0                   | 0                   | 0                   | 4,522          | 0                   | 1,697          | 0              | 544                 | 544            |
| P. Dean Ridenour     | 0                   | 0                   | 0                   | 2,714          | 0                   | 1,697          | 0              | 0                   | 0              |

(a) Restricted stock awards with a performance standard (as adjusted for the August 2004 and June 2006 stock splits) were made in May 2004. Pursuant to the terms of the grant, one-third of the restricted stock became fully vested and non-forfeitable in February 2007, and an additional one-third of the restricted stock became fully vested and non-forfeitable in February 2008. The remaining one-third of the restricted stock vested in February 2009 upon the certification by the Committee that our average quarterly adjusted net income per diluted share was at least \$0.12 for the period from October 1, 2004 through the quarter ending on December 31, 2008.

(b)

Restricted stock awards with a performance standard (as adjusted for the June 2006 stock split) were made in February 2005. Pursuant to the terms of the grant, one-third of the restricted stock became fully vested and non-forfeitable in February 2008, and an additional one-third of the restricted stock became fully vested and non-forfeitable in February 2009 upon the certification by the Committee that the applicable performance standard was met. Except in the case of early termination, after December 31, 2009 the remaining one-third of the restricted stock (the 2010 shares ) will vest if our average quarterly adjusted net income per diluted share is at least \$0.12 for the period from October 1, 2004 through any quarter ending on or before December 31, 2010. Assuming the quarterly adjusted net income standard is met, the 2010 shares will become vested on the date that the Committee certifies that we have met the applicable standard(s).

- (c) Restricted stock awards with a performance standard (as adjusted for the June 2006 stock split) were made in February 2006. Pursuant to the terms of the grants, one-third of the restricted stock became fully vested and non-forfeitable in February 2007, and an additional one-third of the restricted stock became fully vested and non-forfeitable in February 2008. The remaining one-third of the restricted stock vested in February 2009 upon the certification by the Committee that our average quarterly adjusted net income per diluted share was at least \$0.23 for the period from October 1, 2006 through the quarter ending on December 31, 2008.
- (d) Performance share units (as adjusted for the June 2006 stock split) were awarded in February 2006. Pursuant to the terms of the grants, the individual may earn from 0% to 200% of the performance share units for the designated performance period. The performance period for these awards ended on December 31, 2008. The number of shares disclosed in the above chart in this footnote (7) represents the number of units subject to the award, rather than the number of shares potentially payable in the event the maximum performance threshold is attained. At the end of the performance period, the individual is entitled to a number of shares of Common Stock equal to a percentage of the awarded units as determined by reference to our performance on four performance measures compared to the performance by members of our defined peer group on the same four measures. The four performance measures are earnings per

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share growth, net profit margin, return on assets, and return on investment. The relevant peer group was Alon USA Energy, Inc., Cameron International Corporation, Crosstex Energy, Inc., El Paso Corporation, FMC Technologies, Inc., Frontier Oil Corporation, Giant Industries Inc., Hanover Compressor Company, Marathon Oil Corporation, Maverick Tube Corporation, Murphy Oil Corporation, Sunoco, Inc., Tesoro Corporation, Valero Energy Corp., Western Gas Resources, Inc. and The Williams Companies, Inc. On January 12, 2009, the Committee determined that the applicable performance standards were achieved such that each performance share unit would be paid at the rate of 1.54 shares of our Common Stock. The number of shares of our Common Stock payable is equal to the result of multiplying the number of performance share units granted by the average of the percentile ranking of our performance on the performance measures over the performance period as compared to the peer group's performance on such measures over the performance period, multiplied by two. The average is determined by adding our percentile ranking on each performance measure and dividing the sum by four. The impact on these awards of a change in control or the awardee's termination of employment under various circumstances prior to December 31, 2008 are the same as described for the 2008 performance share unit awards in the previous section of this proxy statement titled Performance Share Unit Agreement Terms.

- (e) Restricted stock awards with a performance standard were granted in February, 2007. Pursuant to the terms of the grants, one-third of the restricted stock became fully vested and non-forfeitable in February 2008. Except in the case of early termination of employment, (i) after December 31, 2008, another one-third of the restricted stock (the 2009 shares) will vest if our average quarterly adjusted net income per diluted share is at least \$0.68 for the period from October 1, 2007 through the end of period being measured (with the earliest possible ending quarter being the fourth quarter of 2008 and the last possible ending quarter being the fourth quarter of 2010) and (ii) after December 31, 2009, the remaining one-third of the restricted stock (the 2010 shares) will vest if our average quarterly adjusted net income per diluted share is at least \$0.68 for the period from October 1, 2007 through the end of period being measured (with the earliest possible ending quarter being the fourth quarter of 2009 and the last possible ending quarter being the fourth quarter of 2010). In the event of the individual's death, total and permanent disability (as determined by our Committee in its sole discretion), or retirement after attaining age 62 (or some earlier retirement age approved by our Committee in its sole discretion), the individual shall forfeit a number of shares equal to (i) the total shares originally subject to the award, times (ii) the percentage that the period of full months beginning on the first calendar month following the date of death, disability or retirement and ending on December 31, 2009, bears to 36, and any remaining shares that are not vested will become vested, except that in its sole discretion, our Committee may decide to vest all of the shares in lieu of the prorated number. The individual will be a stockholder with respect to all of the restricted shares and will have the right to receive all distributions paid with respect to such restricted shares. The change in control provisions of this award are described below in the section titled Potential Payments upon Termination or Change in Control. Assuming the quarterly adjusted net income standard is met as set forth in each case above, the 2009 shares and/or the 2010 shares, as the case may be, will become vested on the date that our Committee certifies that we have met the applicable standards.
- (f) Performance share units were awarded in February 2007. Pursuant to the terms of the grants, the individual may earn from 0% to 200% of the performance share units for the designated performance period. The performance period for these awards ends on December 31, 2009. The number of shares disclosed in the above chart in this footnote (7) represents the number of units subject to the award, rather than the number of shares potentially payable in the event the maximum performance threshold is attained. At the end of the performance period, the individual is entitled to a number of shares of Common Stock equal to a percentage of the awarded units as determined by reference to our performance on three performance measures compared to the performance by members of our defined peer group on the same three measures. The three measures are earnings per share growth, return on assets, and return on investment. Our peer group was the same as

described above for the performance share units awarded in February 2006 (see note (d) of this footnote (7)). The number of shares of our Common Stock payable is equal to the result of multiplying the number of performance share units granted by the average of the percentile ranking of our performance on the performance measures over the performance period as compared to the peer group's performance on such measures over the performance period, multiplied by two. The average is determined by adding our

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percentile ranking on each performance measure and dividing the sum by three. The impact on these awards of a change in control or the awardee's termination of employment under various circumstances prior to December 31, 2009 are the same as described for the 2008 performance share unit awards in the previous section of this proxy statement titled "Performance Share Unit Agreement Terms."

- (g) Performance share units were granted to Mr. Shaw on December 17, 2007. The terms and conditions of the performance share units granted by us to other Named Executive Officers in February 2006 (see note (d) of this footnote (7)) govern 4,070 of these performance share units. The terms and conditions of the performance share units granted by us to other Named Executive Officers in February 2007 (see note (f) of this footnote (7)) govern the remaining 3,394 performance share units.
  - (h) Restricted stock awards with a performance standard were made in March 2008. The vesting dates for these awards are described above in the narrative disclosures in the section titled "Restricted Stock Agreement Terms."
  - (i) Performance share units were awarded in March 2008. The number of shares disclosed in the chart above in this footnote (7) represents the number of units subject to the award, rather than the number of shares potentially payable in the event the maximum performance threshold is attained. Additional information regarding these performance share units is provided above in the narrative disclosures in the section titled "Performance Share Unit Agreement Terms" under the "2008 Grants of Plan-Based Awards" table.
  - (j) The numbers reported for Mr. Glancy reflect the number of outstanding restricted shares and performance share units held by Mr. Glancy following the vesting of restricted shares and the forfeiture of restricted shares and performance share units, as applicable, that occurred upon his retirement on June 30, 2008.
- (8) Based upon the closing market price of our Common Stock on December 31, 2008, which was \$18.23 per share.
- (9) Mr. Glancy retired from the position of Senior Vice President, General Counsel and Secretary of the Company as of May 8, 2008. On July 1, 2008 Mr. Glancy ceased to be an employee of the Company but continues providing services as a non-employee consultant to the Company under a one-year consulting contract.
- Upon the cessation of Mr. Glancy's employment, he forfeited the following numbers of restricted stock awards with performance standards: (a) 950 granted on May, 13, 2004, (b) 2,430 granted on February 17, 2005, (c) 905 granted on February 16, 2006, (d) 1,697 granted on February 28, 2007, and (e) 2,722 granted on March 7, 2008.
- (10) The 15,000 outstanding options reflected in the table for Mr. Glancy were granted on March 9, 2001 (as adjusted for the July 2001, August 2004 and June 2006 stock splits). See footnotes (1) and (3) above for information regarding vesting and expiration of options.
  - (11) Mr. Ridenour resigned from the position of Vice President and Chief Accounting Officer of the Company as of January 7, 2008. On April 1, 2008 Mr. Ridenour ceased to be an employee of the Company but continues providing services as a non-employee consultant to the Company under a two-year consulting contract. The Committee has determined that, solely for purposes of the outstanding performance share unit and restricted share unit awards set forth in this table, Mr. Ridenour's work as a consultant under the consulting agreement will be treated as continuing employment with the Company and Mr. Ridenour's non-vested awards will not be forfeited because of the change from employee to consultant status, but will continue to vest in accordance with their terms until the expiration or early termination of his consulting agreement.





**Table of Contents****2008 Option Exercises and Stock Vested**

The following table provides information about our Named Executive Officers related to stock options exercised and restricted share and/or performance share unit awards that became vested during the 2008 fiscal year.

| Name   | Option Awards                                      |  | Stock Awards                                      |   |
|--|--|--|---|---|
|  | Number of Shares<br>Acquired on<br>Exercise<br>(#) | Value Realized<br>Upon Exercise<br>(\$) <sup>(1)</sup> | Number of Shares<br>Acquired on<br>Vesting<br>(#) | Value Realized<br>Upon Vesting<br>(\$) <sup>(2)</sup> |
| Matthew P. Clifton,<br>Chief Executive Officer and<br>Chairman of the Board                  |  |  |   |   |
| Option Exercises <sup>(3)</sup>  | 156,000  | \$ 5,155,075   |   |   |
| Cash Payments <sup>(4)</sup>   |  |  | 73,800  | \$ 3,625,794  |
| Stock Vestings <sup>(5)</sup>  |  |  | 37,063  | \$ 1,963,598  |
| David L. Lamp,<br>President  | n/a  | n/a  | 16,912 <sup>(6)</sup>                             | \$ 825,038  |
| Bruce R. Shaw,<br>Senior Vice President and Chief<br>Financial Officer                       | n/a  | n/a  | n/a   | n/a   |
| George J. Damiris,<br>Senior Vice President, Supply and<br>Marketing                         | n/a  | n/a  | 817 <sup>(7)</sup>                                | \$ 41,577   |
| Denise C. McWatters,<br>Vice President, General Counsel<br>and Secretary                     | n/a  | n/a  | n/a   | n/a   |
| Stephen J. McDonnell,<br>Vice President and Chief<br>Financial Officer                       | 240,000 <sup>(8)</sup>                             | \$ 3,413,450   | 15,305 <sup>(9)</sup>                             | \$ 723,779  |
| W. John Glancy,<br>Senior Vice President and General<br>Counsel until May 8, 2008            | n/a  | n/a  | 31,662 <sup>(10)</sup>                            | \$ 1,443,241  |
| P. Dean Ridenour,<br>Vice President and Chief<br>Accounting Officer until<br>January 7, 2008 | n/a  | n/a  | 10,138 <sup>(11)</sup>                            | \$ 469,763  |

(1) Value realized from the exercise of stock options is equal to the closing price of our Common Stock on the trading date of the exercise (or closing price on the trading date immediately preceding the exercise if the

exercise occurs before the market closes on the date of exercise) less the exercise price multiplied by the number of options exercised (calculated before payment of any applicable withholding or other income taxes).

- (2) Value realized from the vesting of restricted stock and/or performance share unit awards is equal to the closing price of our Common Stock on the vesting date (or, if the vesting date is not a trading date, on the trading date immediately prior to the date of vesting) multiplied by the number of vested shares (calculated before payment of any applicable withholding or other income taxes).
- (3) Mr. Clifton exercised: (a) 76,000 stock options on January 22, 2008, with an exercise price of \$3.34375 and stock price of \$43.80 on the exercise date; and (b) 80,000 stock options on August 20, 2008, with an exercise price of \$2.975 and stock price of \$28.98 on the exercise date.
- (4) Mr. Clifton was granted 36,900 performance share units (as adjusted for the June 2006 stock split) in February 2005, which vested on February 21, 2008 following the Committee's certification that the applicable performance standards were met and were paid in a cash payment of \$3,625,794, which represents the number of units subject to the award, multiplied by a 200% Performance Percentage, multiplied by \$49.13, which is the 30-day average closing price for Company common stock for the period ending December 31, 2007.

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- (5) Mr. Clifton was granted the following awards that vested on February 21, 2008 following the Committee's certification of the applicable performance standards when the applicable market price of the Company's stock was \$52.98: (a) 22,033 shares (as adjusted for the August 2004 and June 2006 stock splits) of restricted stock with a performance standard in May 2004, (b) 6,150 shares (as adjusted for the June 2006 stock split) of restricted stock with a performance standard in February 2005, (c) 5,233 shares (as adjusted for the June 2006 stock split) of restricted stock with a performance standard in February 2006, and (d) 3,647 shares of restricted stock with a performance standard in February 2007.
- (6) Mr. Lamp was granted the following awards that vested on the indicated dates: (a) 2,533 shares of restricted stock (as adjusted for the August 2004 and June 2006 stock splits) granted in May 2004 and vested on January 1, 2008 when the market price of the Company's stock was \$50.89, the closing price per share of our Common Stock on December 31, 2007, (b) 1,333 shares of restricted stock (as adjusted for the June 2006 stock split) granted in February 2005 and vested on January 1, 2008 when the applicable market price of the Company's stock was \$50.89, (c) 2,997 shares of restricted stock with a performance standard (as adjusted for the June 2006 stock split) granted in February 2006 and vested on February 21, 2008 following the Committee's certification of the applicable performance standards when the applicable market price of the Company's stock was \$52.98, and (d) 2,049 shares of restricted stock with a performance standard granted in February 2007 and vested on February 21, 2008 following the Committee's certification of the applicable performance standards when the applicable market price of the Company's stock was \$52.98.

Mr. Lamp also was granted 4,000 performance share units (as adjusted for the June 2006 stock split) in February 2005 that vested on January 14, 2008 following the Committee's certification that the applicable performance standards were met. Those performance share units were paid at 8,000 shares of Common Stock (which represents the number of units subject to the award, multiplied by a 200% Performance Percentage) with an applicable market price of \$45.12 on the date of vesting.

- (7) Mr. Damiris was granted an award of 817 shares of restricted stock on June 29, 2007 that vested on January 1, 2008 when the applicable market price of the Company's stock was \$50.89.
- (8) Mr. McDonnell exercised (a) 80,000 stock options on November 12, 2008, with an exercise price of \$1.523438 and stock price of \$16.54 on the exercise date; (b) 40,000 stock options on November 17, 2008, with an exercise price of \$1.523438 and stock price of \$16.33 on the exercise date; (c) 40,000 stock options on November 19, 2008, with an exercise price of \$1.523438 and stock price of \$13.90 on the exercise date; (d) 20,000 stock options on November 19, 2008, with an exercise price of \$2.975 and stock price of \$13.90 on the exercise date; and (e) 60,000 stock options on December 15, 2008, with an exercise price of \$2.975 and stock price of \$18.08 on the exercise date.
- (9) Mr. McDonnell was granted the following awards that vested on January 1, 2008 when the applicable market price of the Company's stock was \$50.89: (a) 2,933 shares of restricted stock (as adjusted for the August 2004 and June 2006 stock splits) granted in May 2004, (b) 1,200 shares of restricted stock (as adjusted for the June 2006 stock split) granted in February 2005, (c) 775 shares of restricted stock (as adjusted for the June 2006 stock split) granted in February 2006, and (d) 849 shares of restricted stock granted in February 2007

Mr. McDonnell also was granted 4,774 performance share units (as adjusted for the June 2006 stock split) in February 2005 that vested on January 14, 2008 following the Committee's certification that the applicable performance standards were met. Those performance share units were paid as 9,548 shares of Common Stock (which represents the number of units subject to the award, multiplied by a 200% Performance Percentage) with an applicable market price of \$45.12 on the date of vesting.



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- (10) Mr. Glancy was granted the following awards of restricted stock with a performance standard that vested on February 21, 2008 when the applicable market price for the Company's stock was \$52.98 following the Committee's certification that the performance standards applicable to such grants had been achieved: (a) 3,167 shares (as adjusted for the August 2004 and June 2006 stock splits) granted in May 2004; (b) 2,700 shares (as adjusted for the June 2006 stock split) granted in February 2005; (c) 1,809 shares (as adjusted for the June 2006 stock split) granted in February 2006; and (d) 1,131 shares granted in February 2007. Upon Mr. Glancy's retirement on June 30, 2008 (when the applicable market price of our Common Stock was \$36.92), the following restricted shares with a performance standard vested pursuant to the terms of those awards and represent the portion that vested after application of applicable forfeiture provisions: (i) 2,216 shares (as adjusted for the August 2004 and June 2006 stock splits) granted in May 2004; (ii) 2,970 shares (as adjusted for the June 2006 stock split) granted in February 2005; (iii) 903 shares (as adjusted for the June 2006 stock split) granted in February 2006; and (iv) 566 shares granted in February 2007. Pursuant to the terms of the applicable agreements, the following awards were forfeited upon Mr. Glancy's retirement:

| <b>Restricted Stock</b> |                          | <b>Number of Shares Forfeited</b> |
|-------------------------|--------------------------|-----------------------------------|
| <b>Award Date</b>       | <b>Forfeiture Amount</b> |                                   |
| May 2004                | 6/60ths of total shares  | 950                               |
| February 2005           | 18/60ths of total shares | 2,430                             |
| February 2006           | 6/36ths of total shares  | 905                               |
| February 2007           | 18/36ths of total shares | 1,697                             |

Mr. Glancy also was granted 8,100 performance share units (as adjusted for the June 2006 stock split) in February 2005 that vested on January 14, 2008 following the Committee's certification that the applicable performance standards were met. Those performance share units were paid at 16,200 shares of Common Stock (which represents the number of units subject to the award, multiplied by a 200% Performance Percentage) with a market price of \$45.12 on the date of vesting.

- (11) Mr. Ridenour was granted the following awards that vested on January 1, 2008, when the market price of the Company's Common Stock was \$50.89: (a) 667 shares of restricted stock (as adjusted for the June 2006 stock split) granted in February 2005, (b) 905 shares of restricted stock (as adjusted for the June 2006 stock split) granted in February 2006, and (c) 566 shares of restricted stock granted in February 2007.

Mr. Ridenour also was granted 4,000 performance share units (as adjusted for the June 2006 stock split) in February 2005 that vested on January 14, 2008 following the Committee's certification that the applicable performance standards were met. Those performance share units were paid at 8,000 shares of Common Stock (which represents the number of units subject to the award, multiplied by a 200% Performance Percentage) with a market price of \$45.12 on the date of vesting.

The Committee determined that, solely for purposes of applying the terms of restricted stock agreements and performance share unit agreements evidencing restricted stock and performance share unit awards, Mr. Ridenour shall be treated as continuing employment with us and our subsidiaries while he is serving as a consultant under a consulting agreement that became effective upon his termination of employment with us.

**Pension Benefits**

Our Named Executive Officers participate in our Retirement Plan (the Qualified Retirement Plan ), which generally provides a defined benefit to participants following their retirement. In addition, since the 1995 fiscal year, we have also sponsored and maintained our Retirement Restoration Plan (the Retirement Restoration Plan ) that provides additional benefits such that the total pension benefits for specified executives will be maintained at the levels contemplated in the Qualified Retirement Plan before application of the Tax Code limitations. The table below sets forth an estimate of the pension benefits payable to our Named Executive Officers at normal retirement age under the Qualified Retirement Plan and the Retirement Restoration Plan (collectively, the Retirement Plans ).

**Table of Contents****Pension Benefits Table**

| <b>Name<br/>(a)</b>   | <b>Plan Name<br/>(b)</b>       | <b>Number of Years<br/>Credited Service<br/>(#) (c)</b> | <b>Present Value of<br/>Accumulated Benefit<br/>(\$ (d)</b> | <b>Payments During<br/>Last Fiscal Year<br/>(\$ (e)</b> |
|---|--------------------------------|---|---|---|
| Matthew P. Clifton,<br>Chief Executive Officer<br>and<br>Chairman of the Board        | Qualified<br>Retirement Plan   | 28.17   | \$ 778,101  | \$ 0  |
|   | Retirement<br>Restoration Plan | 28.17   | \$ 1,996,879  | \$ 0  |
| David L. Lamp,<br>President   | Qualified<br>Retirement Plan   | 5.0   | \$ 95,790   | \$ 0  |
|   | Retirement<br>Restoration Plan | 5.0   | \$ 82,966   | \$ 0  |
| Bruce R. Shaw<br>Senior Vice President and<br>Chief Financial Officer                 | Qualified<br>Retirement Plan   | 8.25  | \$ 78,178   | \$ 0  |
|   | Retirement<br>Restoration Plan | 8.25  | \$ 4,132  | \$ 0  |
| George J. Damiris,<br>Senior Vice President,<br>Supply and Marketing                  | Qualified<br>Retirement Plan   | n/a   | n/a   | \$ 0  |
|   | Retirement<br>Restoration Plan | n/a   | n/a   | \$ 0  |
| Denise C. McWatters,<br>Vice President, General<br>Counsel<br>and Secretary           | Qualified<br>Retirement Plan   | n/a   | n/a   | \$ 0  |
|   | Retirement<br>Restoration Plan | n/a   | n/a   | \$ 0  |
| Stephen J. McDonnell,<br>Vice President and<br>Chief Financial Officer <sup>(1)</sup> | Qualified<br>Retirement Plan   | 8.42  | \$ 200,959  | \$ 0  |
|   | Retirement<br>Restoration Plan | 8.42  | \$ 30,777   | \$ 0  |
| W. John Glancy,<br>Senior Vice President and<br>General Counsel <sup>(2)</sup>        | Qualified<br>Retirement Plan   | 9.25  | \$ 0  | \$ 340,879  |
|   | Retirement<br>Restoration Plan | 9.25  | \$ 119,948  | \$ 32,280   |
| P. Dean Ridenour,<br>General Counsel <sup>(2)</sup>                                   | Qualified<br>Retirement Plan   | 3.58  | \$ 0  | \$ 131,706  |

|  |                                |      |    |   |    |        |
|--|--------------------------------|------|----|---|----|--------|
| Vice President and<br>Chief Accounting<br>Officer <sup>(3)</sup> | Retirement<br>Restoration Plan | 3.58 | \$ | 0 | \$ | 31,469 |
|--|--------------------------------|------|----|---|----|--------|

- (1) Mr. McDonnell retired on January 1, 2009 and was eligible for accelerated commencement of his benefit. The lump sum benefits payable as of January 1, 2009 were \$200,959 from the Qualified Retirement Plan and \$9,233 payable from the Pre-409A benefit (as defined below) in the Retirement Restoration Plan. An additional lump sum benefit of \$21,544 will be payable from the Post-409A benefit (as defined below) in the Retirement Restoration Plan after July 1, 2009.
- (2) Mr. Glancy retired on June 30, 2008 and elected a lump sum distribution of \$340,879 from the Qualified Retirement Plan. Under the Retirement Restoration Plan, \$32,280 was paid as a lump sum distribution from the Pre-409A benefit in the Retirement Restoration Plan in 2008. An additional \$119,948 was paid on January 6, 2009 from the Post-409A benefit in the Retirement Restoration Plan.
- (3) Mr. Ridenour retired on March 31, 2008 and elected to take a lump sum distribution of his benefits from both the Qualified Retirement Plan and the Retirement Restoration Plan. Under the Qualified Retirement Plan, \$131,706 was paid as lump sum distribution in 2008. A lump sum of \$31,469 was paid on October 14, 2008 from the Post-409A benefit in the Retirement Restoration Plan.

In quantifying the present value of the current accrued benefit under the Retirement Plans for our Named Executive Officers indicated above, the valuation method and assumptions discussed in Note 15 to our Consolidated Financial Statements for the fiscal year ended December 31, 2008, included in our annual report on Form 10-K were utilized assuming benefits begin at the first age the participant is eligible for an unreduced benefit (age 62 or current age if later). The material assumptions used include the following:

|                 |   |
|-----------------|---|
| Discount Rate   | 6.50%   |
| Mortality Table | RP2000 White Collar Projected to 2020 (50% male/50% female)   |
| Retirement Age  | Age 62, which is the earliest date a benefit may be paid under the Plans with no benefit reduction. |



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Effective January 1, 2007, participation in the Retirement Plans was frozen to non-union new hires. Employees hired before 2007 generally became eligible to participate in our Qualified Retirement Plan after completing one year of service with us or any of our affiliates. The amount of benefits accrued under the Qualified Retirement Plan is based upon a participant's compensation, age and length of service. The compensation taken into account under our Qualified Retirement Plan is a participant's average monthly compensation, which includes base salary or base pay and any quarterly bonuses, during the highest consecutive 36-month period of employment for each employee (Plan Compensation). No quarterly bonuses were provided to our Named Executive Officers in 2008, but quarterly bonuses were paid to some non-executive union employees.

Our Qualified Retirement Plan provides for benefits upon normal retirement, early retirement, and late retirement, as well as providing accelerated deferred vested benefits, disability benefits and death benefits. Upon normal retirement following a participant's attainment of age 65, a participant is entitled to a life annuity with monthly pension payments equal to (a) 1.6% of the participant's average monthly Plan Compensation multiplied by the participant's total years of credited benefit service, minus (b) 1.5% of the participant's primary Social Security benefit multiplied by the participant's total years of credited service (but not to exceed 45% of such Social Security benefits). In addition, a participant who (i) has attained age 50 and completed at least 10 years of service, or (ii) has attained age 55 and completed at least 3 years of service may elect to terminate employment and begin receiving benefits under our Qualified Retirement Plan. If such a participant begins receiving benefits under our Qualified Retirement Plan on or after the date the participant attains age 60 but before he reaches age 62, such benefits will be reduced by 1/12th of 2 1/2% for each full month that such benefits begin before age 62. If benefits begin before age 60, the participant's Qualified Retirement Plan benefits will be reduced by 1/12th of 5% for each full month that such benefits begin before age 60.

The normal form of benefits under our Qualified Retirement Plan is a life annuity or, if a participant is married, a qualified joint and survivor annuity (unless properly waived). Our Qualified Retirement Plan also permits participants to elect to receive their benefits in the form of a single life annuity for a 5- or 10-year term certain, a reduced pension for the joint lives of the participant and a co-annuitant (with a 100%, 66.66%, or 50% survivor percentage) or a lump sum. If the participant dies before his Qualified Retirement Plan benefits have commenced, his surviving spouse will be entitled to a benefit for life equal to the amount that would have been paid as a survivor benefit under the 100% joint and survivor annuity option. If the participant is not married on the date of his death or waived the surviving spouse benefit, such benefit will be paid to his beneficiary in the form of monthly payments for life or a term certain or in the form of a lump sum, as elected by the beneficiary.

Benefits up to limits set by the Tax Code are funded by our contributions to the Qualified Retirement Plan, with the annual contribution amounts determined on an actuarial basis. In 2008, the Tax Code limited the annual benefit that could be paid from our Qualified Retirement Plan to \$185,000 per year (subject to increases for future years based on price level changes) and limited the compensation that could be taken into account in computing such benefit to \$230,000 per year (subject to certain upward adjustments for future years).

For certain executives including our Named Executive Officers whose benefits under our Qualified Retirement Plan are limited as a result of the limitations described in the preceding paragraph, we have granted participation in our Retirement Restoration Plan, which provides additional pension benefits so that the total retirement benefits for specified executives will be maintained at the levels contemplated in our Qualified Retirement Plan before application of the Tax Code limitations. Specifically, the amount of benefits payable under our Retirement Restoration Plan is equal to a participant's benefit payable in the form of a life annuity calculated under the Qualified Retirement Plan without regard to the Tax Code limitations less the amount of the Qualified Retirement Plan benefit that can be paid under the Qualified Retirement Plan after application of the Tax Code limits. Benefits under our Retirement Restoration Plan are generally payable in the same form and at the same time as the participant's benefits under the Qualified Retirement Plan for benefits earned through 2004 (Pre-409A benefits) and as a lump sum, and no earlier

than 6 months following the Named Executive Officer's separation from service for benefits earned after 2004 (Post-409A benefits).

Since Mr. Clifton was over age 50 and had more than 10 years of service, he was eligible for early retirement on December 31, 2008. His early retirement benefits potentially payable beginning January 1, 2009 are estimated to be \$6,174 per month payable for his lifetime or \$998,968 payable as a lump sum from the Qualified Retirement Plan and \$15,844 per month payable for his lifetime or \$2,563,700 payable as a lump sum from the Retirement

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Restoration Plan. Messrs. Lamp and Shaw were not eligible to commence benefits as of December 31, 2008. Mr. Damiris and Ms. McWatters are not eligible to participate in the Qualified Retirement Plan and the Retirement Restoration Plan because they were hired after the Plan was frozen to non-union new hires.

**Nonqualified Deferred Compensation**

We sponsored an ESOP Restoration Plan that was terminated effective January 2, 2009. The only Named Executive Officer who had an account balance, as of December 31, 2008, in our ESOP Restoration Plan was Mr. Clifton. The following table provides, for Mr. Clifton, information about participation in our ESOP Restoration Plan for the year ending December 31, 2008:

| <b>Name</b>  | <b>Executive Contributions<br/>in Last FY<br/>(\$)</b> | <b>Registrant Contributions<br/>in Last FY<br/>(\$)</b> | <b>Aggregate Earnings<br/>in Last FY<br/>(\$)</b> | <b>Aggregate Withdrawals/<br/>Distributions<br/>(\$)</b> | <b>Aggregate Balance at Last<br/>FYE<br/>(\$)</b> |
|--|--|---|---|--|---|
| Matthew P. Clifton,<br>Chairman of the Board<br>and Chief Executive<br>Officer | n/a  | n/a   | \$(342,075)                                       | \$0  | \$195,426 <sup>(1)</sup>                          |

- (1) Represents 10,720 phantom shares awarded under the ESOP Restoration Plan and held by Mr. Clifton as of December 31, 2008, multiplied by the closing market price of our Common Stock on December 31, 2008, which was \$18.23 per share. Amounts reported as earnings in this table are not preferential (and historically have not been preferential) and therefore are not reported in the Summary Compensation Table and have not been reported in the Summary Compensation Table in prior years.

We adopted the ESOP Restoration Plan to provide additional benefits to executives whose allocations of shares of our Common Stock under our Employee Stock Ownership Plan were reduced because of limitations imposed by the Tax Code for the 1995 and 1996 fiscal years. Pursuant to the terms of the ESOP Restoration Plan, eligible participants received, after the end of the 1995 and 1996 fiscal years, grants of phantom shares equal in number to the number of shares of our Common Stock that they were unable to receive under our ESOP due to Tax Code limitations for such fiscal years. Employee contributions are not allowed under the ESOP Restoration Plan. A total of 61,880 phantom shares were granted to participants under the ESOP Restoration Plan for the 1995 and 1996 fiscal years.

The phantom shares awarded under the ESOP Restoration Plan represent unsecured rights to cash payments based on dividends paid on shares of our Common Stock and on the market value of such shares on future dates. Payments based on the market value of Common Stock are generally paid 40 days following an executive officer's termination of employment or the date of final distribution to the officer under the ESOP, unless the officer elects to defer payment to a future date not later than 60 days after the officer's death or permanent disability. The ESOP Restoration Plan was terminated effective January 2, 2009 and all outstanding account balances were paid in cash to the three individuals who had balances at that time (only Mr. Clifton is a Named Executive Officer).

**Potential Payments Upon Termination or Change in Control**

There are no employment agreements currently in effect between us and any Named Executive Officer, and the Named Executive Officers are not covered under any general severance plan.

We have entered into Change in Control Agreements with our Named Executive Officers. All agreements follow the policy that was approved in February 2008 (approximately three months prior to the 2008 Annual Meeting of Stockholders) and are on the form that was approved in February 2008. No subsequent changes or amendments have been made to our Change in Control Agreement form. Mr. Ridenour's Change-in-Control Agreement terminated on March 31, 2008, when his employment ended and he became an independent contractor consultant. Mr. Glancy's Change-in-Control Agreement terminated on June 30, 2008, when his employment ended and he became an independent contractor consultant. Notwithstanding the preceding, in connection with Mr. McDonnell's retirement from employment with us on January 1, 2009, the Committee approved a retirement package for him providing for a lump-sum payment and certain extended medical insurance coverage. The details of this retirement package are more fully described below.

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The term of each Change in Control Agreement ends on May 15, 2010 regardless of the date the officer enters into the agreement, with an automatic one year extension on May 15, 2010 (and on each May 15th thereafter) unless a cancellation notice is given 60 days prior to the applicable May 15 expiration date (as extended from time to time). The Change in Control Agreements provide that if, in connection with or within two years after a Change in Control, the executive is terminated without Cause, leaves voluntarily for Good Reason, or is terminated as a condition of the occurrence of the transaction constituting the Change in Control, then the executive will receive the following cash severance amounts: (i) a cash payment, paid within 10 days following the executive's termination, equal to his accrued and unpaid salary, reimbursement of expenses and accrued vacation pay, and (ii) a lump sum amount, paid within 15 days following the executive's termination, equal to the multiple specified in the table below for such executive times: (A) his annual base salary as of his date of termination or the date immediately prior to the Change in Control, whichever is greater, plus (B) his or her annual bonus amount, calculated as the average annual bonus paid to him or her for the prior three years. In addition, the executive (and his dependents, as applicable) will receive the continuation of their medical and dental benefits for the number of years indicated in the table below for such executive.

| <b>Named Executive Officer</b> | <b>Cash Severance Multiplier</b> | <b>Years for Continuation of Medical and Dental Benefits</b> |
|--------------------------------|----------------------------------|--|
| Matthew P. Clifton             | 3X                               | 3  |
| David L. Lamp                  | 2X                               | 2  |
| Bruce R. Shaw                  | 2X                               | 2  |
| George J. Damiris              | 2X                               | 2  |
| Denise C. McWatters            | 1X                               | 1  |
| Stephen J. McDonnell           | 2X                               | 2  |
| W. John Glancy                 | n/a                              | n/a  |
| P. Dean Ridenour               | n/a                              | n/a  |

For purposes of the Change in Control Agreements, the following terms have been given the meanings set forth below:

(a) Cause means an executive's (i) engagement in any act of willful gross negligence or willful misconduct on a matter that is not inconsequential, as reasonably determined by our Board of Directors in good faith, or (ii) conviction of a felony.

(b) Change in Control means, subject to certain specific exceptions set forth in the Change in Control Agreements: (i) a person or group of persons (other than Holly, HLS, HEP, or any employee benefit plan of any of the three entities or its affiliates) becomes the beneficial owner of more than 50% of the combined voting power of our then outstanding securities or more than 50% of our outstanding Common Stock, (ii) a majority of the members of our Board of Directors is replaced during a 12 month period by directors who were not endorsed by a majority of the board members prior to their appointment, (iii) the consummation of a merger or consolidation of us or one of our subsidiaries other than (A) a merger or consolidation resulting in our voting securities outstanding immediately prior to the transaction continuing to represent at least 50% of the combined voting power of our voting securities or the voting securities of the surviving entity outstanding immediately after the transaction, or (B) a merger or consolidation effected to implement a recapitalization of us in which no person or group becomes the beneficial owner of our securities representing more than 50% of the combined voting power of our then outstanding securities, or (iv) our stockholders approve a plan of complete liquidation or dissolution of us or an agreement for the sale or disposition of all or substantially all of our assets.

(c) Good Reason means, without the express written consent of the executive: (i) a material reduction in the executive's (or his supervisor's) authority, duties or responsibilities, (ii) a material reduction in the executive's base compensation, or (iii) the relocation of the executive to an office or location more than 50 miles from the location at which the executive normally performed the executive's services, except for travel reasonably required in the performance of the executive's responsibilities. The executive must provide notice to us of the alleged Good Reason event within 90 days of its occurrence and we have the opportunity to remedy the alleged Good Reason event within 30 days from receipt of the notice of such allegation.

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All payments and benefits due under the Change in Control Agreements will be conditioned on the execution and nonrevocation by the executive of a release for our benefit and the benefit of our related entities and agents. The Change in Control Agreements also contain confidentiality provisions pursuant to which each executive agrees not to disclose or otherwise use our confidential information. Violation of the confidentiality provisions entitles us to complete relief, including injunctive relief. Further, in the event of a breach of the confidentiality covenants, the executive could be terminated for Cause (provided the breach constituted willful gross negligence or misconduct that is not inconsequential). The Change in Control Agreements do not prohibit the waiver of a breach of these covenants.

If amounts payable to an executive under a Change in Control Agreement (together with any other amounts that are payable by us as a result of a change in ownership or control) (collectively, the Payments ) exceed the amount allowed under section 280G of the Tax Code for such executive (thereby subjecting the executive to an excise tax as described in further detail below) by 10% or more, we will pay the executive a tax gross up (a Gross Up ) in an amount necessary to allow the executive to retain (after all regular income and section 280G taxes) a net amount equal to the total present value of the Payments on the date they are to be paid (after all regular income taxes but without reduction for section 280G taxes). Conversely, the Payments will be reduced to the level at which no excise tax applies, but only to the extent they exceed the section 280G limit for the executive by less than 10%.

In addition, under the terms of the long-term equity incentive awards described above, if, within 60 days prior to or at any time after a Change in Control, (i) a Named Executive Officer's employment is terminated by us, other than for Cause or (ii) he resigns within 90 days after an Adverse Change has occurred, then all restrictions on the award will lapse, the restricted shares or performance units subject to the award will become vested and Common Stock or a cash payment (in the case of certain performance share unit awards) will be delivered to the Named Executive Officer as soon as practicable, though in accordance with any potential delay in payments required by Section 409A of the Code to avoid excess taxes or interest. The performance share unit award agreements provide that the performance percentage is deemed to be 200% upon the occurrence of a Change in Control (see the footnotes to the Outstanding Equity Awards at Fiscal Year End table for a description of the Performance Percentage ).

For purposes of the long-term equity incentive awards, the following terms have been given the meanings set forth below:

(a) Adverse Change means without the consent of the executive, (i) a material change in the geographic location at which the executive is required to work regularly, (ii) a material reduction in the duties performed by the executive, or (iii) a material reduction in the executive's base compensation (other than a general reduction applicable generally to executives).

(b) Cause means (i) an act of dishonesty constituting a felony or serious misdemeanor and resulting (or intended to result in) personal gain or enrichment to the executive at the Company's expense, (ii) gross or willful and wanton negligence in the performance of the executive's material duties, or (iii) conviction of a felony involving moral turpitude. The existence of Cause is determined by the Committee in its sole discretion.

(c) Change in Control means, subject to certain specific exceptions set forth in the long-term equity incentive awards: (i) a person or group of persons becomes the beneficial owner of more than 40% of the combined voting power of our then outstanding securities, (ii) a majority of the members of our Board of Directors is replaced by directors who were not endorsed by two-thirds of our board members prior to their appointment, (iii) the consummation of a merger or consolidation of us or any of our subsidiaries other than (A) a merger or consolidation resulting in our voting securities outstanding immediately prior to the transaction continuing to represent at least 60% of the combined voting power of our voting securities or the voting securities of the surviving entity outstanding immediately after the transaction, or (B) a merger or consolidation effected to implement a recapitalization of us in which no person or group becomes the beneficial owner of our securities representing more than 40% of the combined voting power of

our then outstanding securities, or (iv) our stockholders approve a plan of complete liquidation or dissolution or an agreement for the sale or disposition of all or substantially all of our assets.



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In the event of a Named Executive Officer's (i) death, (ii) total and permanent disability as determined by the Committee, (iii) retirement after attaining age 62 or an earlier retirement age approved by the Committee, and/or (iv) separation from employment for any reason other than voluntary termination or Cause (as defined in the applicable award agreement), certain of the restricted share and performance unit agreements provide that a Named Executive Officer will forfeit a number of restricted shares or performance units equal to (A) the number of restricted shares or performance units awarded, multiplied by (B) the percentage specified in the applicable award agreement. After that number of restricted shares or performance units is forfeited, any shares or performance units that remain unvested will become immediately vested. The Committee also has discretion in the case of death, disability or retirement to fully vest restricted shares and performance share units.

The following table reflects the estimated payments and other benefits due as of December 31, 2008 pursuant to the Change in Control Agreements and the accelerated vesting of long-term equity incentive awards of each of our Named Executive Officers, assuming, as applicable, that a Change in Control occurred and such executives were terminated effective December 31, 2008. For these purposes, the per share price of our Common Stock was assumed to be \$18.23, which is the closing price on December 31, 2008. The amounts below have been calculated using numerous assumptions that we believe are reasonable, such as the assumption that all reimbursable expenses were current as of December 31, 2008. Accrued vacation is not allowed to be carried over to a subsequent year, so we assumed all accrued vacation for the 2008 year was taken prior to December 31, 2008. Employees accrue vacation in 2008 for use in 2009, so we included the value of the 2009 accrued but unused vacation. However, any actual payments that may be made pursuant to the agreements described above are dependent on various factors, which may or may not exist at the time a Change in Control actually occurs and/or the Named Executive Officer is actually terminated. Therefore, such amounts and disclosures should be considered forward looking statements.

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| <b>Name</b>  | <b>Cash Payments<sup>(1)</sup></b> | <b>Value of Welfare Benefits<sup>(2)</sup></b> | <b>Accelerated Vesting of Equity Awards on a Change in Control and Certain Termination Events<sup>(3) (4)</sup></b> | <b>280G Excise Tax Gross Up or Cut Back<sup>(5)</sup></b> | <b>Total</b> |
|--|------------------------------------|--|---|---|--------------|
| Matthew P. Clifton,<br>Chief Executive Officer<br>and Chairman of the<br>Board   | \$7,557,900                        | \$50,428                                       | \$2,564,268   | \$0   | \$10,172,596 |
| David L. Lamp,<br>President  | \$2,206,000                        | \$33,618                                       | \$1,196,708   | \$1,157,334   | \$4,593,660  |
| Bruce R. Shaw,<br>Senior Vice President<br>and Chief Financial<br>Officer  | \$984,000                          | \$33,618                                       | \$603,395   | \$0   | \$1,621,013  |
| George J. Damiris,<br>Senior Vice President,<br>Supply and Marketing   | \$1,220,000                        | \$33,618                                       | \$297,714   | \$581,945   | \$2,133,277  |
| Denise C. McWatters,<br>Vice President, General<br>Counsel, and Secretary  | \$448,000                          | \$16,809                                       | \$80,722  | \$0   | \$545,531    |
| Stephen J. McDonnell <sup>(6)</sup><br>Vice President and<br>Chief Financial Officer<br>until January 7, 2008<br>and Assistant to the<br>Chairman of the Board<br>from January 7, 2008 to<br>January 1, 2009 | \$974,733                          | \$33,618                                       | \$453,890   | \$0   | \$1,462,241  |
| W. John Glancy<br>Senior Vice President,<br>General Counsel and<br>Secretary until May 8,<br>2008  | \$107,919 <sup>(7)</sup>           | n/a  | \$256,496   | n/a   | \$364,415    |
| P. Dean Ridenour   | \$156,000 <sup>(8)</sup>           | n/a  | \$222,223 <sup>(9)</sup>  | n/a   | \$378,223    |

Vice President and  
Chief Accounting  
Officer until January 7,  
2008

- (1) Represents cash payments equal to the sum of each executive's base salary as of December 31, 2008 plus the average of such executive's annual cash bonus paid for 2005, 2006 and 2007 times the multiplier identified above with respect to such executive. The 2007 bonus for Mr. Damiris and Ms. McWatters representing partial year compensation was annualized for this calculation.
- (2) Represents the value of the continuation of medical and dental benefits for each executive (and, as applicable, his spouse and dependents) for the length of one year multiplied by the applicable multiplier identified above with respect to such executive. The amount was determined based upon the applicable COBRA rates for the employee's benefits. The value of the benefits was determined by using the current monthly premium amount for a similarly situated employee electing COBRA continuation coverage.
- (3) These amounts were calculated as follows using the stock price as of market close on December 31, 2008 (\$18.23):

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| Named Executive Officer | Restricted | Performance | Maximum     | Total       | Value as of |
|-------------------------|------------|-------------|-------------|-------------|-------------|
|                         | Shares     | Units       | Performance | Restricted  |             |
|                         |            |             | Units       | Shares Plus |             |
|                         |            |             | Awarded     | Maximum     | 12/31/2008  |
| Matthew P. Clifton      | 60,368     | 40,147      | 80,294      | 140,662     | \$2,564,268 |
| David L. Lamp           | 19,987     | 22,829      | 45,658      | 65,645      | \$1,196,708 |
| Bruce R. Shaw           | 13,273     | 9,913       | 19,826      | 33,099      | \$603,395   |
| George J. Damiris       | 4,899      | 5,716       | 11,432      | 16,331      | \$297,714   |
| Denise C. McWatters     | 1,476      | 1,476       | 2,952       | 4,428       | \$80,722    |
| Stephen J. McDonnell    | 10,256     | 7,321       | 14,642      | 24,898      | \$453,890   |
| W. John Glancy          | 544        | 6,763       | 13,526      | 14,070      | \$256,496   |
| P. Dean Ridenour        | 3,368      | 4,411       | 8,822       | 12,190      | \$222,223   |

- (4) Although the award agreements explicitly provide for certain pro-rata vesting upon termination due to death, disability, retirement, and termination of employment other than due to voluntary resignation or termination for Cause, the Committee has the discretion to vest awards in full upon such termination events. For purposes of this disclosure only, we assumed the Committee exercised its discretion to allow full vesting. In the event of an actual termination pursuant to one of these events the Committee is under no obligation to actually exercise such discretion.
- (5) Represents the amount of the Tax Code Section 280G Gross Up payment. To determine the amount of the Gross Up payment, the base amount for Mr. Clifton was calculated using the five-year average of his compensation for the years 2003-2007. In the case of Mr. Lamp, the amount is calculated using the four-year average of his compensation for 2004-2007, as his employment with the Company commenced in January 2004. In the case of Mr. Damiris and Ms. McWatters, the amount is calculated using each officer's annualized compensation for 2007, as such officer's employment with the Company commenced in June and October 2007, respectively. In the case of Mr. Shaw, the amount is calculated using the five year average of his compensation for the years 2003-2007 (his 2007 compensation is annualized because he left employment in May and returned in September 2007). The payments received in connection with the change of control in excess of a Named Executive Officer's base amount is considered an excess parachute payment as provided by Section 280G of the Tax Code. If the total of all parachute payments is equal to or greater than three times the base amount, the amount of the excess parachute payment will be subject to the excise tax. In making the calculation, the following assumptions were used: (a) the change of control occurred on December 31, 2008, (b) the closing price of our Common Stock was \$18.23 on such date, (c) the excise tax rate under Section 4999 of the Tax Code is 20%, the federal income tax rate is 35%, the Medicare rate is 1.45%, the adjustment to reflect the phase-out of itemized deductions is 1.05%, and there are no state or local income taxes, (d) no amounts will be discounted as attributable to reasonable compensation, (e) all cash severance payments are contingent upon a change of control, (f) the presumption required under applicable regulations that the equity awards granted were contingent upon a change of control could not be rebutted, and (g) the value received under the Retirement Restoration Plan upon a change in control is equal to the present value of the benefit that would otherwise be received upon normal retirement calculated using the prescribed Applicable Federal Rate.

(6)

Mr. McDonnell retired from employment with us on January 1, 2009. Although Mr. McDonnell was not entitled to receive any of the Change in Control payments described above, we entered into a retirement agreement with him on January 12, 2009, which the Committee approved. The retirement agreement provides for a lump-sum service award payment in the amount of \$524,000 (minus normal wage deductions) and extended medical insurance coverage. We have agreed to bear the cost of Mr. McDonnell's continued medical insurance coverage through January 2010 at an expense to us in the amount of approximately \$22,000.

- (7) This amount reflects consulting fees of \$107,919 for services provided by Mr. Glancy following his retirement pursuant to one-year consulting agreement (executed for a term of July 1, 2008 through June 30, 2009), including the consulting fee due for January 2009 in the amount of \$15,417 which was processed and paid in December 2008. These amounts are also reported in the All Other Compensation column of the Summary Compensation Table.

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- (8) This amount reflects consulting fees of \$156,000 for services provided by Mr. Ridenour following his retirement pursuant to the two-year consulting agreement (executed for a term of April 1, 2008 through March 31, 2010), including the consulting fees paid due for January 2009, in the amount of \$15,600 which was processed and paid in December 2008. These amounts are also reported in the All Other Compensation column of the Summary Compensation Table.
- (9) Mr. Ridenour is treated as continuing employment with the Company and its subsidiaries while he is serving as a consultant to the Company and its subsidiaries under a consulting agreement that became effective upon his termination of employment with the Company. Therefore the vesting of his outstanding awards may be accelerated by the Committee upon a termination event or change in control of the Company. For purposes of this disclosure only, we assumed the Committee exercised its discretion to allow full vesting.

Finally, in the event of a Change in Control (as defined in our Retirement Restoration Plan) each participant's (or surviving spouse's or beneficiary's) benefit under the Retirement Restoration Plan will be paid immediately after such Change in Control in the form of an annuity contract issued by a legal reserve life insurance company and a cash payment. The annuity contract will be for an amount equal to the benefits otherwise due the recipient under the Retirement Restoration Plan reduced by the amount of the cash payment, which will equal the reasonable estimate of the federal income tax liability resulting from the annuity contract and the payment. The value of the annuity contract and the estimated cash payment that would be made to each of our Named Executive Officers under the Retirement Restoration Plan in the event of a Change in Control (as defined in the Retirement Restoration Plan) on December 31, 2008, are set forth below:

| Name <sup>(1)</sup>  | Retirement Restoration Plan | Retirement Restoration Plan | Total Cost to Company |
|----------------------|-----------------------------|-----------------------------|-----------------------|
|                      | Annuity Contract            | Cash Payment <sup>(2)</sup> |                       |
| Matthew P. Clifton   | \$1,297,971                 | \$698,908                   | \$1,996,879           |
| David L. Lamp        | \$53,928                    | \$29,038                    | \$82,966              |
| Bruce R. Shaw        | \$2,686                     | \$1,446                     | \$4,132               |
| George J. Damiris    | n/a                         | n/a                         | n/a                   |
| Denise C. McWatters  | n/a                         | n/a                         | n/a                   |
| Stephen J. McDonnell | \$20,005                    | \$10,772                    | \$30,777              |

- (1) Messrs. Ridenour and Glancy are not included because their Change in Control Agreements terminated in 2008 upon their respective retirements.
- (2) The estimated federal income tax liability for each Named Executive Officer is calculated above using the highest 2008 marginal federal income tax rates.

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**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Compensation Committee of the Board during the year ending December 31, 2008 were Messrs. Berry (Chairman), Matthews and McKenzie. None of the members of the Compensation Committee was an employee of the Company or any of its subsidiaries during the year ending December 31, 2008 and no member of the Compensation Committee has ever been an officer of the Company or any of its subsidiaries. No executive officer of the Company served as a member of the compensation committee of another entity that had an executive officer serving as a member of the Board or the Compensation Committee.

**AUDIT COMMITTEE REPORT**

The Audit Committee of the Board has reviewed and discussed with management the audited financial statements of the Company for the year ended December 31, 2008 and has discussed with representatives of Ernst & Young LLP, the Company's independent auditors for the year ended December 31, 2008, the matters required to be discussed by Statement of Auditing Standards No. 61, as currently in effect. The Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, as currently in effect, and has discussed with representatives of Ernst & Young LLP the independence of Ernst & Young LLP. The Audit Committee has also considered whether the independent auditors' provision of non-audit services to the Company is compatible with the auditors' independence. Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements for the year ended December 31, 2008 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the SEC.

**Audit Committee of the Board of Directors**

Robert G. McKenzie,  
*Chairman*

Buford P. Berry  
Leldon E. Echols  
Thomas K. Matthews, II  
Paul T. Stoffel

The Audit Committee Report will not be deemed proxy soliciting material and will not be incorporated by reference in any filing by the Company under the Securities Act of 1933 or the Exchange Act except to the extent that the Company specifically incorporates such report by reference.

**RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS**

The Audit Committee of the Board has recommended stockholder ratification of the selection of Ernst & Young LLP, an independent registered public accounting firm, to audit the books, records and accounts of the Company and its consolidated subsidiaries for the 2009 calendar year. Ernst & Young LLP has conducted such audits since 1977. It is expected that a representative of such firm will be present in person or by conference telephone at the Annual Meeting, will have an opportunity to make a statement if the representative so desires, and will be available to respond to appropriate questions.

**Table of Contents****EQUITY COMPENSATION PLAN TABLE**

The following table summarizes information about our long-term incentive compensation plan as of December 31, 2008:

|  | <b>Number of Shares<br/>to<br/>be Issued Upon<br/>Exercise of<br/>Outstanding<br/>Options, Warrants<br/>and Rights</b> | <b>Weighted-Average<br/>Exercise Price of<br/>Outstanding<br/>Options,<br/>Warrants<br/>and Rights</b> | <b>Number of Shares<br/>Remaining<br/>Available<br/>for Future<br/>Issuance<br/>Under Equity<br/>Compensation<br/>Plans</b> |
|--|--|--|---|
| Equity compensation plans approved by stockholders     | 85,200   | \$2.98   | 2,677,709   |
| Equity compensation plans not approved by stockholders |  |  |   |
| <b>Total</b>   | <b>85,200</b>  | <b>\$2.98</b>  | <b>2,677,709</b>  |

For more information about our Long-Term Incentive Equity Compensation Plan, see information provided under the heading Long-Term Incentive Equity Compensation in the Compensation Discussion and Analysis section of this Proxy Statement.

**AUDIT FEES**

The following table sets forth the fees paid to Ernst & Young LLP for services provided during 2007 and 2008. All of the fees paid were approved by the Audit Committee:

|                                   | <b>2008</b>        | <b>2007</b>        |
|-----------------------------------|--------------------|--------------------|
| Audit Fees <sup>(1)</sup>         | \$1,306,000        | \$1,261,000        |
| Audit-Related Fees <sup>(2)</sup> | \$124,000          | 0                  |
| Tax Fees <sup>(3)</sup>           | \$515,000          | \$580,000          |
| All Other Fees                    | \$0                | 0                  |
| <b>Total</b>                      | <b>\$1,945,000</b> | <b>\$1,841,000</b> |

(1) Represents fees for professional services provided in connection with the audit of the Company's annual financial statements and internal control over financial reporting, review of the Company's quarterly financial statements and audits performed as part of registration statement filings of the Company and its affiliates.



- (2) Represents fees for consultations related to LIFO inventory, the SEC's comment letter related to our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and the reconsolidation of Holly Energy Partners, L.P.'s financial statements effective March 1, 2009.
- (3) Represents fees for professional services in connection with tax compliance and planning. Includes \$212,164 and \$310,000 for tax services provided to HEP in the years ended December 31, 2008 and 2007, respectively, as tax services are among the administrative services that the Company provides to HEP under the Omnibus Agreement.

The Company has adopted a policy whereby the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor to assure that performing such services does not impair the auditor's independence. The Audit Committee has approved a policy whereby it may delegate its pre-approval authority, up to \$75,000, to one or more of the Audit Committee's members or to the Company's Chief Accounting Officer, and any decisions made under such delegation are required to be reported to the Audit Committee.

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**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

**Specific Transactions.**

M. Neale Hickerson, who is employed by the Company as Vice President, Investor Relations, is the son of Marcus R. Hickerson, a director of the Company. Neale Hickerson was paid cash compensation in the amount of \$226,957.99 (representing \$166,957.99 in salary and a bonus of \$60,000) for services rendered during 2008. Neale Hickerson does not report to Marcus R. Hickerson and his compensation is consistent with our policies that apply to all employees with equivalent qualifications, experience and responsibilities. In addition, Neale Hickerson received 553 Restricted Stock Awards and 553 Performance Share Units in calendar year 2008 with a grant date fair value of \$52,502 based upon the closing price of \$47.47 per share on the day prior to the grant. The total stock award value, calculated as set forth in footnote 2 to the 2008 Summary Compensation Table above, of all unvested equity awards held by Neale Hickerson on December 31, 2008 (including awards granted prior to 2008) was \$53,115.

Michael P. Clifton, who is employed by the Company as Manager of Supply and Business Development for the Company's asphalt operations, is the son of Matthew P. Clifton, the Chairman of the Board and Chief Executive Officer. Michael Clifton was paid cash compensation in the amount of \$121,538.94 (representing \$90,338.94 in salary and a bonus of \$31,200) for services rendered during 2008. Michael Clifton does not report to Matthew P. Clifton and his compensation is consistent with our policies that apply to all employees with equivalent qualifications, experience and responsibilities. In addition, Michael Clifton received 211 Restricted Stock Awards and 211 Performance Share Units in calendar year 2008 with a grant date fair value of \$20,023 based upon the closing price of \$47.47 per share on the day prior to the grant. The total stock award value, calculated as set forth in footnote 2 to the 2008 Summary Compensation Table above, of unvested equity awards held by Michael Clifton on December 31, 2008 (including awards granted prior to 2008) was \$14,308.

Willie D. Reid, who is employed by the Company as Manager, Applications Infrastructure Support and is the son of Jack P. Reid, a director of the Company. Willie Reid was paid cash compensation in the amount of \$113,931.50 (representing \$98,231.50 in salary and a bonus of \$15,700) for services rendered during 2008. Willie Reid does not report to Jack P. Reid and his compensation is consistent with our policies that apply to all employees with equivalent qualifications, experience and responsibilities. In addition, Willie Reid received 74 Restricted Stock Awards and 74 Performance Share Units in calendar year 2008 with a grant date fair value of \$7,026 based upon the closing price of \$47.47 per share on the day prior to the grant. The total stock award value, calculated as set forth in footnote 2 to the 2008 Summary Compensation Table above, of unvested equity awards held by Willie Reid on December 31, 2008 (including awards granted prior to 2008) was \$3,073.

Patricia C. Williams, who is employed by the Company as Administrative Assistant Senior, Contracts & Pricing, is the sister of Mathew P. Clifton, the Chairman of the Board and Chief Executive Officer. Ms. Williams was paid a base salary and bonus of less than \$50,000 in 2008. Ms. Williams does not report to Mr. Clifton and her compensation is consistent with our policies that apply to all employees with equivalent qualifications, experience and responsibilities.

**Review, Approval or Ratification of Transactions with Related Persons.**

The disclosure, review and approval of any transactions between the Company and related persons is governed by the Code of Ethics, which provides guidelines for disclosure, review and approval of any transaction that creates a conflict of interest between the Company and its employees, officers or directors and members of their immediate family. Conflict of interest transactions may be authorized if they are found to be in the best interest of the Company based on all relevant facts. Pursuant to the Code of Ethics, conflicts of interest are to be disclosed to and reviewed by a superior employee to the related person who does not have a conflict of interest, and additionally, if more than trivial size, by

the superior of the reviewing person. Conflicts of interest involving directors are reviewed by the full Board or by a committee of the Board on which the director does not serve. Related party transactions required to be disclosed in the Company's SEC reports are reported through its disclosure controls and procedures.

The transactions disclosed in this section entitled "Certain Relationships and Related Party Transactions - Specific Transactions" (a) were not required to be reviewed, ratified or approved pursuant to the Code of Ethics and (b) comply with the Company's policies and procedures with respect to conflicts of interest.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and holders of more than 10% of its shares of Common Stock to file with the SEC and the NYSE initial reports of ownership of shares of Common Stock and reports of changes in such ownership. The Commission's rules require such persons to furnish the Company with copies of all Section 16(a) reports that they file. Based on a review of these reports, other information available to the Company, and written representations from reporting persons that no other reports were required, all such reports concerning beneficial ownership were filed in a timely manner by reporting persons with the following exceptions which were both due to administrative oversights: (a) two Form 4 reports related to sales of the Company's Common Stock held by David L. Lamp and Stephen J. McDonnell to satisfy tax withholding obligations with respect to the vesting of certain restricted units on January 1, 2008; and (b) a Form 3 report was filed late for Mr. Scott Surplus, who became our principal accounting officer on July 1, 2008.

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**ADDITIONAL INFORMATION**

**Stockholder Proposals**

Proposals of stockholders to be considered for presentation at the Company's 2010 Annual Meeting pursuant to Rule 14a-8 of the Securities Exchange Act of 1934 should be received by the Company by December 10, 2009, in order to be considered for inclusion in the proxy statement for that meeting.

Pursuant to the Company's Bylaws, a stockholder must deliver notice, mailed to and received at the principle executive offices of the Company, not less than 120 calendar days nor more than 150 calendar days before the anniversary date of the Company's proxy statement released to stockholders in connection with the prior year's Annual Meeting. However, if the date of the Company's 2010 Annual Meeting has been changed by more than 30 days from the date contemplated at the time of the prior year's proxy statement, a stockholder's notice must be received by the Secretary of the Company not later than 60 days before the date the Company commences mailing of its proxy materials in connection with the 2010 Annual Meeting. In accordance with these provisions, stockholders must deliver notice to the Company no earlier than November 10, 2009 and no later than December 10, 2009 for stockholder proposals to be considered at the Company's 2010 Annual Meeting.

With respect to proxies submitted for the 2010 Annual Meeting, the Company management will have discretionary authority to vote on any matter for which the Company does not receive notice by the date specified in the advance notice provisions of the Company's Bylaws described above, pursuant to Rule 14a-4(c)(1) of the Securities Exchange Act of 1934.

**Other Matters**

The Board of the Company does not know of any other matters to be acted upon at the meeting. However, if any other matter properly comes before the meeting, the persons voting the proxies will vote them in accordance with their best judgment.

**Financial Statements Available**

A copy of the Company's 2008 Annual Report containing the audited consolidated balance sheet at December 31, 2008, and the related consolidated statements of income, cash flows, stockholders' equity and comprehensive income for the year ended December 31, 2008, is being mailed with this Proxy Statement to stockholders entitled to notice of the Annual Meeting. The Annual Report does not constitute a part of the proxy solicitation material unless and only to the extent specifically referred to in this Proxy Statement.

**Voting Via the Internet or By Telephone**

If you have shares registered directly with the Company's transfer agent, you may choose to vote those shares via the Internet or by telephone. Specific instructions for registered stockholders interested in voting via the Internet or by telephone are set forth on the enclosed proxy card. If you hold shares with a broker or bank, you may also be eligible to vote via the Internet or by telephone if your broker or bank participates in the proxy voting program provided by ADP Investor Communication Services. If your bank or brokerage firm is participating in ADP's program, your voting form will provide instructions.

Votes submitted via the Internet or by telephone must be received by the transfer agent by 11:59 p.m., Eastern Daylight Time, on May 13, 2009. Submitting your proxy via the Internet or by telephone will not affect your right to

vote in person should you decide to attend the Annual Meeting. The telephone and Internet voting procedures are designed to authenticate stockholders' identities, to allow stockholders to give their voting instructions and to confirm that stockholders' instructions have been recorded properly. A stockholder voting via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the stockholder.

DENISE C. MCWATTERS

*Secretary*

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**ANNUAL MEETING OF STOCKHOLDERS OF  
HOLLY CORPORATION  
May 14, 2009  
NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:**

The Notice of Meeting, proxy statement and proxy card

are available at [www.hollycorp.com/investors.cfm](http://www.hollycorp.com/investors.cfm)

Please sign, date and mail  
your proxy card in the  
envelope provided as soon  
as possible.

â Please detach along perforated line and mail in the envelope provided. â

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES AND  
FOR RATIFICATION OF THE SELECTION OF ERNST & YOUNG, LLP AS THE COMPANY S  
AUDITOR.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK  
YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x**

1. Election of Directors:

- |  |  |
|--|--|
| <input type="radio"/> <b>FOR ALL NOMINEES</b><br><br><input type="radio"/> <b>WITHHOLD AUTHORITY<br/>FOR ALL NOMINEES</b><br><br><input type="radio"/> <b>FOR ALL EXCEPT</b><br>(See instructions below) | <b>NOMINEES:</b><br><input type="radio"/> B.P. Berry<br><input type="radio"/> M.P. Clifton<br><input type="radio"/> L.E. Echols<br><input type="radio"/> M.R. Hickerson<br><br><input type="radio"/> T.K. Matthews<br><input type="radio"/> R.G. McKenzie<br><input type="radio"/> J.P. Reid<br><input type="radio"/> P.T. Stoffel |
|--|--|

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: l

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

- |   |                       |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | FOR                   | AGAINST               | ABSTAIN               |
| 2. Ratification of the recommendation of the Company s Audit Committee, endorsed by the Board of Directors, of the selection of Ernst & Young, LLP, | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

an independent registered public accounting firm, as the Company's auditor for the year 2009:

3. Other Business - Voting upon any other business properly brought before the meeting or any adjournment thereof.

**This proxy when properly executed will be voted as directed. If no direction is given, it will be voted FOR the election of all nominees as directors, FOR Ratification of the selection of Ernst & Young, LLP as the Company's auditor and in the discretion of those authorized to vote this proxy on any other business.**

**Receipt of the Company's Annual Report for 2008, Notice of Annual Meeting and related Proxy Statement is hereby acknowledged, and all former proxies are hereby revoked.**

**Please check the box if you are planning to attend the Annual Meeting in person.**

Signature of Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**ANNUAL MEETING OF STOCKHOLDERS OF  
HOLLY CORPORATION  
May 14, 2009**

**PROXY VOTING INSTRUCTIONS**

**INTERNET** - Access [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions. Have your proxy card available when you access the web page, and use the Company Number and Account Number shown on your proxy card.

**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call and use the Company Number and Account Number shown on your proxy card.

Vote online/phone until 11:59 PM EST the day before the meeting.

**MAIL** - Sign, date and mail your proxy card in the envelope provided as soon as possible.

**IN PERSON** - You may vote your shares in person by attending the Annual Meeting.

**COMPANY NUMBER  
ACCOUNT NUMBER**

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:** The Notice of meeting, proxy statement and proxy card are available at [www.hollycorp.com/investors.cfm](http://www.hollycorp.com/investors.cfm)

â Please detach along perforated line and mail in the envelope provided **IF** you are not voting via telephone or the Internet. â

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES AND FOR RATIFICATION OF THE SELECTION OF ERNST & YOUNG, LLP AS THE COMPANY S AUDITOR.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x**

1. Election of Directors:

**FOR ALL NOMINEES**

**WITHHOLD AUTHORITY FOR ALL NOMINEES**

**NOMINEES:**

- B.P. Berry
- M.P. Clifton
- L.E. Echols
- M.R. Hickerson

**FOR ALL EXCEPT**  
(See instructions below)

- T.K. Matthews
- R.G. McKenzie
- J.P. Reid
- P.T. Stoffel

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: 1

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

- |   | FOR                   | AGAINST               | ABSTAIN               |
|---|-----------------------|-----------------------|-----------------------|
| 2. Ratification of the recommendation of the Company's Audit Committee, endorsed by the Board of Directors, of the selection of Ernst & Young, LLP, an independent registered public accounting firm, as the Company's auditor for the year 2009: | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 3. Other Business - Voting upon any other business properly brought before the meeting or any adjournment thereof.  |                       |                       |                       |

**This proxy when properly executed will be voted as directed. If no direction is given, it will be voted FOR the election of all nominees as directors, FOR Ratification of the selection of Ernst & Young, LLP as the Company's auditor and in the discretion of those authorized to vote this proxy on any other business. Receipt of the Company's Annual Report for 2008, Notice of Annual Meeting and related Proxy Statement is hereby acknowledged, and all former proxies are hereby revoked.**

**Please check the box if you are planning to attend the Annual Meeting in person.**

Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_ Signature of Stockholder \_\_\_\_\_ Date: \_\_\_\_\_

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**PROXY  
HOLLY CORPORATION  
PROXY FOR ANNUAL MEETING OF STOCKHOLDERS - MAY 14, 2009  
SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

Matthew P. Clifton, Bruce R. Shaw and Denise C. McWatters, or any of them or their substitutes, are hereby appointed proxies to represent and to vote the stock of Holly Corporation standing in the name(s) of the undersigned at the Annual Meeting of Stockholders to be held in Dallas, Texas on May 14, 2009, and at all adjournments thereof. **TO VOTE IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS YOU DO NOT NEED TO MARK ANY OF THE BOXES, JUST DATE AND SIGN ON THE REVERSE SIDE.**

**SEE REVERSE  
SIDE**

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE  
SEE REVERSE  
SIDE**

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