HOLLY ENERGY PARTNERS LP
Form 10-Q
November 05, 2014

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to _____________
Commission File Number: 1-32225

HOLLY ENERGY PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 20-0833098<br>(I.R.S. Employer<br>Identification No.) |
| 2828 N. Harwood, Suite 1300<br>Dallas, Texas<br>(Address of principal executive offices) | 75201<br>(Zip code) |

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

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

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of the registrant’s outstanding common units at October 24, 2014 was 58,657,048.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under “Results of Operations” and “Liquidity and Capital Resources” in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I are forward-looking statements. Forward-looking statements use words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “should,” “could,” “believe,” “may,” and similar expressions and statements regarding our plans and objectives for future operations. These statements are based on our beliefs and assumptions and those of our general partner using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give assurance that our expectations will prove to be correct. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- risks and uncertainties with respect to the actual quantities of petroleum products and crude oil shipped on our pipelines and/or terminalled, stored or throughput in our terminals;
- the economic viability of HollyFrontier Corporation, Alon USA, Inc. and our other customers;
- the demand for refined petroleum products in markets we serve;
- our ability to purchase and integrate future acquired operations;
- our ability to complete previously announced or contemplated acquisitions;
- the availability and cost of additional debt and equity financing;
- the possibility of reductions in production or shutdowns at refineries utilizing our pipeline and terminal facilities;
- the effects of current and future government regulations and policies;
- our operational efficiency in carrying out routine operations and capital construction projects;
- the possibility of terrorist attacks and the consequences of any such attacks;
- general economic conditions; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation, the forward-looking statements that are referred to above. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2013, in “Risk Factors” and in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

| | September 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $1,667 | $6,352 |
| Accounts receivable: | | |
| Trade | 5,761 | 5,061 |
| Affiliates | 30,211 | 29,675 |
| | 35,972 | 34,736 |
| Prepaid and other current assets | 4,419 | 3,874 |
| Total current assets | 42,058 | 44,962 |
| | | |
| Properties and equipment, net | 971,560 | 957,814 |
| Transportation agreements, net | 82,440 | 87,650 |
| Goodwill | 256,498 | 256,498 |
| Investment in SLC Pipeline | 24,579 | 24,741 |
| Other assets | 9,034 | 10,843 |
| Total assets | $1,386,169 | $1,382,508 |
| | | |
| LIABILITIES AND PARTNERS’ EQUITY | | |
| Current liabilities: | | |
| Accounts payable: | | |
| Trade | $10,792 | $14,414 |
| Affiliates | 4,293 | 8,484 |
| | 15,085 | 22,898 |
| | | |
| Accrued interest | 1,823 | 10,239 |
| Deferred revenue | 14,271 | 13,981 |
| Accrued property taxes | 6,469 | 2,603 |
| Other current liabilities | 2,862 | 1,845 |
| Total current liabilities | 40,510 | 51,566 |
| | | |
| Long-term debt | 851,416 | 807,630 |
| Other long-term liabilities | 13,374 | 14,585 |
| Deferred revenue | 26,432 | 21,669 |
| | | |
| Class B unit | 25,082 | 20,124 |
| | | |
| Equity: | | |
| Partners’ equity: | | |
| Common unitholders (58,657,048 units issued and outstanding | 481,147 | 516,147 |

| | | |
|---|---|---|
| at September 30, 2014 and December 31, 2013) | | |
| General partner interest (2% interest) | (147,948 ) | (146,557 ) |
| Accumulated other comprehensive income (loss) | 314 | (144 ) |
| Total partners’ equity | 333,513 | 369,446 |
| Noncontrolling interest | 95,842 | 97,488 |
| Total equity | 429,355 | 466,934 |
| Total liabilities and equity | $1,386,169 | $1,382,508 |

See accompanying notes.

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HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per unit data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Affiliates | $67,450 | $65,523 | $203,762 | $190,222 |
| Third parties | 14,680 | 12,200 | 40,370 | 37,084 |
| | 82,130 | 77,723 | 244,132 | 227,306 |
| Operating costs and expenses: | | | | |
| Operations (exclusive of depreciation and amortization) | 25,456 | 21,686 | 72,835 | 72,089 |
| Depreciation and amortization | 15,483 | 19,449 | 46,953 | 48,730 |
| General and administrative | 2,266 | 2,415 | 7,933 | 8,747 |
| | 43,205 | 43,550 | 127,721 | 129,566 |
| Operating income | 38,925 | 34,173 | 116,411 | 97,740 |
| Other income (expense): | | | | |
| Equity in earnings of SLC Pipeline | 880 | 835 | 2,150 | 2,238 |
| Interest expense | (8,585) | (11,816) | (27,368) | (35,929) |
| Interest income | — | 3 | 3 | 110 |
| Loss on early extinguishment of debt | — | — | (7,677) | — |
| Gain (loss) on sale of assets | — | (159) | — | 1,863 |
| Other income | 11 | 61 | 45 | 61 |
| | (7,694) | (11,076) | (32,847) | (31,657) |
| Income before income taxes | 31,231 | 23,097 | 83,564 | 66,083 |
| State income tax expense | (42) | (40) | (145) | (440) |
| Net income | 31,189 | 23,057 | 83,419 | 65,643 |
| Allocation of net income attributable to noncontrolling interests | (1,509) | (1,172) | (6,562) | (5,192) |
| Net income attributable to Holly Energy Partners | 29,680 | 21,885 | 76,857 | 60,451 |
| General partner interest in net income, including incentive distributions | (8,940) | (7,128) | (25,334) | (20,038) |
| Limited partners’ interest in net income | $20,740 | $14,757 | $51,523 | $40,413 |
| Limited partners’ per unit interest in earnings—basic and diluted | $0.35 | $0.25 | $0.87 | $0.69 |
| Weighted average limited partners’ units outstanding | 58,657 | 58,657 | 58,657 | 58,108 |

See accompanying notes.

HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $31,189 | $23,057 | $83,419 | $65,643 |
| Other comprehensive income: | | | | |
| Change in fair value of cash flow hedging instruments | 553 | (1,626) | (1,189) | 1,329 |
| Amortization of unrealized loss attributable to discontinued cash flow hedge | — | — | — | 849 |
| Reclassification adjustment to net income on partial settlement of cash flow hedge | 556 | 529 | 1,647 | 1,549 |
| Other comprehensive income (loss) | 1,109 | (1,097) | 458 | 3,727 |
| Comprehensive income before noncontrolling interest | 32,298 | 21,960 | 83,877 | 69,370 |
| Allocation of comprehensive income to noncontrolling interests | (1,509) | (1,172) | (6,562) | (5,192) |
| Comprehensive income attributable to Holly Energy Partners | $30,789 | $20,788 | $77,315 | $64,178 |

See accompanying notes.

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HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

| | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $83,419 | $65,643 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 46,953 | 48,730 |
| Gain on sale of assets | — | (1,863) |
| Amortization of deferred charges | 1,384 | 2,440 |
| Amortization of restricted and performance units | 2,493 | 2,642 |
| Loss on early extinguishment of debt | 7,677 | — |
| (Increase) decrease in operating assets: | | |
| Accounts receivable—trade | (700) | 2,191 |
| Accounts receivable—affiliates | (536) | 903 |
| Prepaid and other current assets | (545) | (720) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable—trade | 608 | 821 |
| Accounts payable—affiliates | (4,191) | (501) |
| Accrued interest | (8,417) | (7,946) |
| Deferred revenue | 5,051 | 11,867 |
| Accrued property taxes | 3,867 | 2,521 |
| Other current liabilities | 467 | 519 |
| Other, net | (877) | 366 |
| Net cash provided by operating activities | 136,653 | 127,613 |
| | | |
| Cash flows from investing activities | | |
| Additions to properties and equipment | (58,313) | (33,539) |
| Proceeds from sale of assets | — | 2,481 |
| Distributions in excess of equity in earnings of SLC Pipeline | 163 | 75 |
| Net cash used for investing activities | (58,150) | (30,983) |
| | | |
| Cash flows from financing activities | | |
| Borrowings under credit agreement | 538,600 | 256,500 |
| Repayments of credit agreement borrowings | (346,600) | (312,500) |
| Proceeds from issuance of common units | — | 73,444 |
| Redemption of senior notes | (156,188) | — |
| Contribution from general partner | — | 1,499 |
| Distributions to HEP unitholders | (114,680) | (103,016) |
| Distributions to noncontrolling interest | (3,250) | (2,625) |
| Purchase of units for incentive grants | (1,064) | (3,700) |
| Other | (6) | (249) |
| Net cash used by financing activities | (83,188) | (90,647) |
| | | |
| Cash and cash equivalents | | |

| | | |
|---|---|---|
| Increase (decrease) for the period | (4,685) | 5,983 |
| Beginning of period | 6,352 | 5,237 |
| End of period | $1,667 | $11,220 |

See accompanying notes.

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HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
(Unaudited)
(In thousands)

| | Common Units | General Partner Interest | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|
| Balance December 31, 2013 | $516,147 | $(146,557) | $(144) | $97,488 | $466,934 |
| Distributions to HEP unitholders | (89,296) | (25,384) | — | — | (114,680) |
| Distributions to noncontrolling interest | — | — | — | (3,250) | (3,250) |
| Purchase of units for incentive grants | (1,064) | — | — | — | (1,064) |
| Amortization of restricted and performance units | 2,493 | — | — | — | 2,493 |
| Class B unit accretion | (4,859) | (99) | — | — | (4,958) |
| Other | 3 | — | — | — | 3 |
| Net income | 57,723 | 24,092 | — | 1,604 | 83,419 |
| Other comprehensive income | — | — | 458 | — | 458 |
| Balance September 30, 2014 | $481,147 | $(147,948) | $314 | $95,842 | $429,355 |

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Description of Business and Presentation of Financial Statements

Holly Energy Partners, L.P. ("HEP"), together with its consolidated subsidiaries, is a publicly held master limited partnership which is 39% owned (including the 2% general partner interest) by HollyFrontier Corporation ("HFC") and its subsidiaries. We commenced operations on July 13, 2004, upon the completion of our initial public offering. In these consolidated financial statements, the words "we," "our," "ours" and "us" refer to HEP unless the context otherwise indicates.

We own and operate petroleum product and crude oil pipelines and terminal, tankage and loading rack facilities that support HFC's refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountain regions of the United States and Alon USA, Inc.'s ("Alon") refinery in Big Spring, Texas. Additionally, we own a 75% interest in UNEV Pipeline, LLC ("UNEV"), which owns a 417-mile, 12-inch refined products pipeline running from Woods Cross, Utah to Las Vegas, Nevada (the "UNEV Pipeline"), product terminals near Cedar City, Utah and Las Vegas, Nevada and related assets, and a 25% interest in SLC Pipeline LLC, which owns a 95-mile intrastate crude oil pipeline system (the "SLC Pipeline") that serves refineries in the Salt Lake City, Utah area.

We generate revenues by charging tariffs for transporting petroleum products and crude oil through our pipelines, by charging fees for terminalling and storing refined products and other hydrocarbons, and by providing other services at our storage tanks and terminals. We do not take ownership of products that we transport, terminal or store, and therefore, we are not exposed directly to changes in commodity prices.

The consolidated financial statements included herein have been prepared without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). The interim financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of our results for the interim periods. Such adjustments are considered to be of a normal recurring nature. Although certain notes and other information required by U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Form 10-K for the year ended December 31, 2013. Results of operations for interim periods are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2014.

New Accounting Pronouncements

Revenue Recognition
In May 2014, an accounting standard update (ASU 2014-09, "Revenue from Contracts with Customers") was issued requiring revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods or services. This standard is effective January 1, 2017, and we are evaluating the impact of this standard.

Note 2: Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, debt and interest rate swaps. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value. Debt consists of outstanding principal under our revolving credit agreement (which approximates fair value as interest rates are reset frequently at current interest rates) and our fixed interest rate senior notes.

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

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

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The carrying amounts and estimated fair values of our senior notes and interest rate swaps were as follows:

| Financial Instrument | Fair Value Input Level | September 30, 2014 Carrying Value | September 30, 2014 Fair Value | December 31, 2013 Carrying Value | December 31, 2013 Fair Value |
|---|---|---|---|---|---|
| | | (In thousands) | | | |
| Assets: | | | | | |
| Interest rate swaps | Level 2 | $1,545 | $1,545 | $1,670 | $1,670 |
| Liabilities: | | | | | |
| Senior notes: | | | | | |
| 6.5% senior notes | Level 2 | $296,416 | $309,000 | $295,927 | $313,500 |
| 8.25% senior notes | Level 2 | — | — | 148,703 | 158,250 |
| | | 296,416 | 309,000 | 444,630 | 471,750 |
| Interest rate swaps | Level 2 | 1,231 | 1,231 | 1,814 | 1,814 |
| | | $297,647 | $310,231 | $446,444 | $473,564 |

Level 2 Financial Instruments
Our senior notes and interest rate swaps are measured at fair value using Level 2 inputs. The fair value of the senior notes is based on market values provided by a third-party, which were derived using market quotes for similar type instruments, a Level 2 input. The fair value of our interest rate swaps is based on the net present value of expected future cash flows related to both variable and fixed-rate legs of the swap agreement. The measurements are computed using the forward London Interbank Offered Rate (“LIBOR”) yield curve, a market-based observable input.

See Note 6 for additional information on these instruments.

Note 3: Properties and Equipment

The carrying amounts of our properties and equipment are as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Pipelines, terminals and tankage | $1,081,154 | $1,077,037 |
| Construction in progress | 97,604 | 50,454 |
| Land and right of way | 63,222 | 63,425 |
| Other | 21,409 | 19,997 |
| | 1,263,389 | 1,210,913 |
| Less accumulated depreciation | (291,829) | (253,099) |
| | $971,560 | $957,814 |

We capitalized $1.2 million and $0.3 million in interest attributable to construction projects during the nine months ended September 30, 2014 and 2013, respectively.

Depreciation expense was $41.4 million and $43.2 million for the nine months ended September 30, 2014 and 2013, respectively. Included in depreciation expense were asset abandonment charges of $1.9 million and $5.4 million for the nine months ended September 30, 2014 and 2013, respectively, for assets permanently removed from service.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Note 4: Transportation Agreements

Our transportation agreements represent a portion of the total purchase price of certain assets acquired from Alon in 2005 and from HFC in 2008. The Alon agreement is being amortized over 30 years ending 2035 (the initial 15-year term of the agreement plus an expected 15-year extension period), and the HFC agreement is being amortized over 15 years ending 2023 (the term of the HFC agreement).

The carrying amounts of our transportation agreements are as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Alon transportation agreement | $59,933 | $59,933 |
| HFC transportation agreement | 74,231 | 74,231 |
| | 134,164 | 134,164 |
| Less accumulated amortization | (51,724) | (46,514) |
| | $82,440 | $87,650 |

We have additional transportation agreements with HFC resulting from historical transactions consisting of pipeline, terminal and tankage assets contributed to us or acquired from HFC. These transactions occurred while we were a consolidated variable interest entity of HFC; therefore, our basis in these agreements is zero and does not reflect a step-up in basis to fair value.

Note 5: Employees, Retirement and Incentive Plans

Direct support for our operations is provided by Holly Logistic Services, L.L.C., an HFC subsidiary, which utilizes personnel employed by HFC who are dedicated to performing services for us. Their costs, including salaries, bonuses, payroll taxes, benefits and other direct costs, are charged to us monthly in accordance with an omnibus agreement that we have with HFC. These employees participate in the retirement and benefit plans of HFC. Our share of retirement and benefit plan costs was $1.9 million for each of the three months ended September 30, 2014 and 2013, and $5.5 million and $5.7 million for the nine months ended September 30, 2014 and 2013, respectively.

We have an incentive plan (“Long-Term Incentive Plan”) for employees and non-employee directors who perform services for us. The Long-Term Incentive Plan consists of four components: restricted or phantom units, performance units, unit options and unit appreciation rights. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (a significant proportion of our awards) is to expense the costs ratably over the vesting periods.

As of September 30, 2014, we have three types of incentive-based awards which are described below. The compensation cost charged against income was $0.8 million and $0.7 million for the three months ended September 30, 2014 and 2013, respectively, and $2.5 million and $2.6 million for the nine months ended September 30, 2014 and 2013, respectively. We currently purchase units in the open market instead of issuing new units for settlement of all unit awards under our Long-Term Incentive Plan. As of September 30, 2014, 2,500,000 units were authorized to be granted under our Long-Term Incentive Plan, of which 1,611,423 have not yet been granted, assuming no forfeitures of the unvested units and full achievement of goals for the performance units already granted.

Restricted and Phantom Units
Under our Long-Term Incentive Plan, we grant restricted units to non-employee directors and selected employees who perform services for us, with most awards vesting over a period of one to three years. Although full ownership of the units does not transfer to the recipients until the units vest, the recipients have distribution and voting rights on these units from the date of grant.

In addition, we grant phantom units to certain employees, which vest over a period of one year. Vested units are paid in common units. Full ownership of the units does not transfer to the recipient until the units vest, and the recipients do not have voting or distribution rights on these units until they vest.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The fair value of each restricted unit and phantom unit award is measured at the market price as of the date of grant and is amortized over the vesting period.

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

| Restricted and Phantom Units | Units | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Outstanding at January 1, 2014 (nonvested) | 122,951 | $33.36 |
| Granted | 24,046 | 33.28 |
| Vesting and transfer of common units to recipients | (14,130) | 38.34 |
| Forfeited | (3,968) | 37.82 |
| Outstanding at September 30, 2014 (nonvested) | 128,899 | $32.66 |

As of September 30, 2014, there was $1.7 million of total unrecognized compensation expense related to nonvested restricted unit and phantom unit grants, which is expected to be recognized over a weighted-average period of 0.9 years.

Performance Units
Under our Long-Term Incentive Plan, we grant performance units to selected executives who perform services for us. Performance units granted are payable based upon the growth in our distributable cash flow per common unit over the performance period, and vest over a period of three years. As of September 30, 2014, estimated unit payouts for outstanding nonvested performance unit awards were at 100%.

No performance units were granted during the nine months ended September 30, 2014. Performance units granted in 2013 vest over a three-year performance period ending December 31, 2015, for performance units granted in February 2013, and December 31, 2016, for performance units granted in November 2013. The performance units granted are payable in HEP common units. The number of units actually earned will be based on the growth of our distributable cash flow per common unit over the performance period and can range from 0% to 200% of the target number of performance units granted (in the case of our Chairman, who received a performance unit award in March 2013 prior to his retirement from Holly Logistic Services, L.L.C., our ultimate general partner ("HLS")) or from 50% to 150% of the target number of performance units granted (in the case of other officers granted performance units). Although common units are not transferred to the recipients until the performance units vest, the recipients have distribution rights with respect to the common units from the date of grant.

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

| Performance Units | Units |
|---|---|
| Outstanding at January 1, 2014 (nonvested) | 75,216 |
| Vesting and transfer of common units to recipients | (17,938) |
| Outstanding at September 30, 2014 (nonvested) | 57,278 |

The grant-date fair value of performance units vested and transferred to recipients during the nine months ended September 30, 2014, was $0.5 million. As of September 30, 2014, there was $0.9 million of total unrecognized compensation expense related to nonvested performance units, which is expected to be recognized over a weighted-average period of 1.3 years.

Note 6: Debt

Credit Agreement

We have a $650 million senior secured revolving credit facility expiring in November 2018 (the “Credit Agreement”) that is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. It is also available to fund letters of credit up to a $50 million sub-limit.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Our obligations under the Credit Agreement are collateralized by substantially all of our assets. Indebtedness under the Credit Agreement involves recourse to HEP Logistics Holdings, L.P. (“HEP Logistics”), our general partner, and is guaranteed by our material wholly-owned subsidiaries. Any recourse to HEP Logistics would be limited to the extent of its assets, which other than its investment in us, are not significant. We may prepay all loans at any time without penalty, except for payment of certain breakage and related costs.

The Credit Agreement imposes certain requirements on us with which we are currently in compliance, including: a prohibition against distribution to unitholders if, before or after the distribution, a potential default or an event of default as defined in the agreement would occur; limitations on our ability to incur debt, make loans, acquire other companies, change the nature of our business, enter into a merger or consolidation, or sell assets; and covenants that require maintenance of a specified EBITDA to interest expense ratio, total debt to EBITDA ratio and senior debt to EBITDA ratio. If an event of default exists under the Credit Agreement, the lenders will be able to accelerate the maturity of the debt and exercise other rights and remedies.

Senior Notes
In March 2014, we redeemed the $150 million aggregate principal amount of 8.25% senior notes (the "8.25% Senior Notes")maturing March 2018 at a redemption cost of $156.2 million, at which time we recognized a $7.7 million early extinguishment loss consisting of a $6.2 million debt redemption premium and unamortized discount and financing costs of $1.5 million. We funded the redemption with borrowings under our Credit Agreement.

We have $300 million in aggregate principal amount outstanding of 6.5% senior notes (the "6.5% Senior Notes") maturing March 2020. The 6.5% Senior Notes are unsecured and impose certain restrictive covenants, with which we are currently in compliance, including limitations on our ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. At any time when the 6.5% Senior Notes are rated investment grade by both Moody’s and Standard & Poor’s and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights at varying premiums over face value under the 6.5% Senior Notes.

Indebtedness under the 6.5% Senior Notes involves recourse to HEP Logistics, our general partner, and is guaranteed by our wholly-owned subsidiaries. However, any recourse to HEP Logistics would be limited to the extent of its assets, which other than its investment in us, are not significant.

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands) | |
| Credit Agreement | $555,000 | $363,000 |
| 6.5% Senior Notes | | |
| Principal | 300,000 | 300,000 |
| Unamortized discount | (3,584) | (4,073) |
| | 296,416 | 295,927 |
| 8.25% Senior Notes | | |
| Principal | — | 150,000 |
| Unamortized discount | — | (1,297) |

| | | |
|---|---|---|
| | — | 148,703 |
| Total long-term debt | $851,416 | $807,630 |

Interest Rate Risk Management
We use interest rate swaps (derivative instruments) to manage our exposure to interest rate risk.

As of September 30, 2014, we have three interest rate swaps that hedge our exposure to the cash flow risk caused by the effects of LIBOR changes on $305 million of Credit Agreement advances. Our first interest rate swap effectively converts $155 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.99% plus an applicable margin of 2.00% as of September 30, 2014, which equaled an effective interest rate of 2.99%. This swap contract matures in February 2016. We also have two additional interest rate swaps with identical terms which effectively convert $150 million of our LIBOR based debt to fixed rate debt having an interest rate of 0.74% plus an applicable margin of 2.00% as of September 30, 2014, which equaled an effective interest rate of 2.74%. Both of these swap contracts mature in July 2017.

We have designated these interest rate swaps as cash flow hedges. Based on our assessment of effectiveness using the change in variable cash flows method, we have determined that these interest rate swaps are effective in offsetting the variability in interest payments on $305 million of our variable rate debt resulting from changes in LIBOR. Under hedge accounting, we adjust our cash flow hedges on a quarterly basis to their fair values with the offsetting fair value adjustments to accumulated other comprehensive income (loss). Also on a quarterly basis, we measure hedge effectiveness by comparing the present value of the cumulative change in the expected future interest to be paid or received on the variable leg of our swaps against the expected future interest payments on $305 million of our variable rate debt. Any ineffectiveness is recorded directly to interest expense. As of September 30, 2014, we had no ineffectiveness on our cash flow hedges.

At September 30, 2014, we have accumulated other comprehensive income of $0.3 million that relates to our current cash flow hedging instruments. Approximately $0.3 million will be transferred from accumulated other comprehensive income into interest expense as interest is paid on the underlying swap agreement over the next twelve-month period, assuming interest rates remain unchanged.

Additional information on our interest rate swaps is as follows:

| Derivative Instrument | Balance Sheet Location | Fair Value | Location of Offsetting Balance | Offsetting Amount |
|---|---|---|---|---|
| | (In thousands) | | | |
| September 30, 2014 | | | | |
| Interest rate swaps designated as cash flow hedging instrument: | | | | |
| Variable-to-fixed interest rate swap contracts ($150 million of LIBOR-based debt interest) | Other long-term assets | $1,545 | Accumulated other comprehensive income | $1,545 |
| Variable-to-fixed interest rate swap contracts ($155 million of LIBOR-based debt interest) | Other long-term liabilities | (1,231) | Accumulated other comprehensive loss | (1,231) |
| | | $314 | | $314 |
| December 31, 2013 | | | | |
| Interest rate swaps designated as cash flow hedging instrument: | | | | |
| Variable-to-fixed interest rate swap contracts ($155 million of LIBOR-based debt interest) | Other long-term liabilities | $(1,814) | Accumulated other comprehensive loss | $(1,814) |
| Variable-to-fixed interest rate swap contracts ($150 million of LIBOR-based debt interest) | Other long-term assets | 1,670 | Accumulated other comprehensive income | 1,670 |
| | | $(144) | | $(144) |

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Interest Expense and Other Debt Information
Interest expense consists of the following components:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Interest on outstanding debt: | | |
| Credit Agreement, net of interest on interest rate swaps | $9,717 | $9,273 |
| 6.5% Senior Notes | 14,571 | 14,631 |
| 8.25% Senior Notes | 2,544 | 9,286 |
| Amortization of discount and deferred debt issuance costs | 1,384 | 1,590 |
| Amortization of unrecognized loss attributable to terminated cash flow hedge | — | 849 |
| Commitment fees | 378 | 629 |
| Total interest incurred | 28,594 | 36,258 |
| Less capitalized interest | 1,226 | 329 |
| Net interest expense | $27,368 | $35,929 |
| Cash paid for interest | $35,627 | $41,751 |

Note 7: Significant Customers

All revenues are domestic revenues, of which 93% are generated currently from our two largest customers: HFC and Alon. The vast majority of our revenues are derived from activities conducted in the southwest United States.

The following table presents the percentage of total revenues generated by each of these customers:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| HFC | 82 % | 84 % | 84 % | 84 % |
| Alon | 11 % | 10 % | 9 % | 10 % |

Note 8: Related Party Transactions

We serve HFC's refineries under long-term pipeline and terminal, tankage and throughput agreements expiring from 2019 to 2026. Under these agreements, HFC agrees to transport, store and throughput volumes of refined product and crude oil on our pipelines and terminal, tankage and loading rack facilities that result in minimum annual payments to us. These minimum annual payments or revenues are subject to annual tariff rate adjustments on July 1st each year, based on the Producer Price Index (“PPI”) or Federal Energy Regulatory Commission (“FERC”) index. As of September 30, 2014, these agreements with HFC will result in minimum annual payments to us of $236.2 million.

If HFC fails to meet its minimum volume commitments under the agreements in any quarter, it will be required to pay us the amount of any shortfall in cash by the last day of the month following the end of the quarter. Under certain of these agreements, a shortfall payment may be applied as a credit in the following four quarters after its minimum obligations are met.

Under certain provisions of an omnibus agreement we have with HFC (the “Omnibus Agreement”), we pay HFC an annual administrative fee (currently $2.3 million) for the provision by HFC or its affiliates of various general and administrative services to us. This fee does not include the salaries of personnel employed by HFC who perform services for us on behalf of HLS or the cost of their employee benefits, which are charged to us separately by HFC. Also, we reimburse HFC and its affiliates for direct expenses they incur on our behalf.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Related party transactions with HFC are as follows:

- Revenues received from HFC were $67.5 million and $65.5 million for the three months ended September 30, 2014 and 2013, respectively, and $203.8 million and $190.2 million for the nine months ended September 30, 2014 and 2013, respectively.
- HFC charged us general and administrative services under the Omnibus Agreement of $0.6 million for each of the three months ended September 30, 2014 and 2013, and $1.7 million for each of the nine months ended September 30, 2014 and 2013.
- We reimbursed HFC for costs of employees supporting our operations of $9.9 million and $5.9 million for the three months ended September 30, 2014 and 2013, respectively, and $28.7 million and $25.0 million for the nine months ended September 30, 2014 and 2013, respectively. Netted against the cost of employees for the three and nine months ended September 30, 2013, is a $3.5 million refund from HFC related to refunds of taxes covering a multi-year period.
- HFC reimbursed us $3.1 million and $5.8 million for the three months ended September 30, 2014 and 2013, respectively, and $11.6 million and $15.1 million for the nine months ended September 30, 2014 and 2013, respectively, for certain reimbursable costs and capital projects.
- We distributed $20.4 million and $18.0 million for the three months ended September 30, 2014 and 2013, respectively, to HFC as regular distributions on its common units and general partner interest, including general partner incentive distributions. For the nine months ended September 30, 2014 and 2013, we distributed $59.5 million and $52.8 million, respectively.
- Accounts receivable from HFC were $30.2 million and $29.7 million at September 30, 2014, and December 31, 2013, respectively.
- Accounts payable to HFC were $4.3 million and $8.5 million at September 30, 2014, and December 31, 2013, respectively.
- Revenues for the three and the nine months ended September 30, 2014, include $0.6 million and $8.2 million, respectively, of shortfall payments billed in 2013, as HFC did not exceed its minimum volume commitment in any of the subsequent four quarters. Deferred revenue in the consolidated balance sheets at September 30, 2014, and December 31, 2013, include $7.5 million and $10.1 million, respectively, relating to certain shortfall billings. It is possible that HFC may not exceed its minimum obligations to receive credit for any of the $7.5 million deferred at September 30, 2014.

Note 9: Partners’ Equity

As of September 30, 2014, HFC held 22,380,030 of our common units and the 2% general partner interest, which together constituted a 39% ownership interest in us.

Allocations of Net Income

Net income attributable to HEP is allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. HEP net income allocated to the general partner includes incentive distributions that are declared subsequent to quarter end. After the amount of incentive distributions is allocated to the general partner, the remaining net income attributable to HEP is allocated to the partners based on their weighted-average ownership percentage during the period.

The following table presents the allocation of the general partner interest in net income for the periods presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| General partner interest in net income | $423 | $301 | $1,051 | $823 |
| General partner incentive distribution | 8,517 | 6,827 | 24,283 | 19,215 |
| Total general partner interest in net income | $8,940 | $7,128 | $25,334 | $20,038 |

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Cash Distributions

Our general partner, HEP Logistics, is entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds specified target levels.

On October 23, 2014, we announced our cash distribution for the third quarter of 2014 of $0.5225 per unit. The distribution is payable on all common and general partner units and will be paid November 14, 2014, to all unitholders of record on November 4, 2014.

The following table presents the allocation of our regular quarterly cash distributions to the general and limited partners for the periods in which they apply. Our distributions are declared subsequent to quarter end; therefore, the amounts presented do not reflect distributions paid during the periods presented below.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands, except per unit data) | | | |
| General partner interest in distribution | $825 | $754 | $2,422 | $2,210 |
| General partner incentive distribution | 8,517 | 6,827 | 24,283 | 19,215 |
| Total general partner distribution | 9,342 | 7,581 | 26,705 | 21,425 |
| Limited partner distribution | 30,648 | 28,889 | 90,625 | 85,346 |
| Total regular quarterly cash distribution | $39,990 | $36,470 | $117,330 | $106,771 |
| Cash distribution per unit applicable to limited partners | $0.5225 | $0.4925 | $1.5450 | $1.455 |

As a master limited partnership, we distribute our available cash, which historically has exceeded our net income attributable to HEP because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in our partners' equity since our regular quarterly distributions have exceeded our quarterly net income attributable to HEP. Additionally, if the asset contributions and acquisitions from HFC had occurred while we were not a consolidated variable interest entity of HFC, our acquisition cost, in excess of HFC's historical basis in the transferred assets of $305.3 million would have been recorded in our financial statements at the time of acquisition, as increases to our properties and equipment and intangible assets instead of decreases to our partners' equity.

Note 10: Contingencies

We are a party to various legal and regulatory proceedings, none of which we believe will have a material adverse impact on our financial condition, results of operation or cash flows.

Note 11: Supplemental Guarantor/Non-Guarantor Financial Information

Obligations of HEP ("Parent") under the Senior Notes have been jointly and severally guaranteed by each of its direct and indirect 100% owned subsidiaries ("Guarantor Subsidiaries"). These guarantees are full and unconditional, subject to certain customary release provisions. These circumstances include (i) when a Guarantor Subsidiary is sold or sells all or substantially all of its assets, (ii) when a Guarantor Subsidiary is declared "unrestricted" for covenant purposes, (iii) when a Guarantor Subsidiary's guarantee of other indebtedness is terminated or released and (iv) when the requirements for legal defeasance or covenant defeasance or to discharge the Senior Notes have been satisfied.

The following financial information presents condensed consolidating balance sheets, statements of comprehensive income, and statements of cash flows of the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The information has been presented as if the Parent accounted for its ownership in the Guarantor Subsidiaries, and the Guarantor Restricted Subsidiaries accounted for the ownership of the Non-Guarantor Non-Restricted Subsidiaries, using the equity method of accounting.

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

| September 30, 2014 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $2 | $18 | $1,647 | $— | $1,667 |
| Accounts receivable | — | 30,971 | 5,231 | (230) | 35,972 |
| Intercompany accounts receivable | — | 360,189 | — | (360,189) | — |
| Prepaid and other current assets | 342 | 2,786 | 1,291 | — | 4,419 |
| Total current assets | 344 | 393,964 | 8,169 | (360,419) | 42,058 |
| | | | | | |
| Properties and equipment, net | — | 586,175 | 385,385 | — | 971,560 |
| Investment in subsidiaries | 990,270 | 287,524 | — | (1,277,794) | — |
| Transportation agreements, net | — | 82,440 | — | — | 82,440 |
| Goodwill | — | 256,498 | — | — | 256,498 |
| Investment in SLC Pipeline | — | 24,579 | — | — | 24,579 |
| Other assets | 1,335 | 7,699 | — | — | 9,034 |
| Total assets | $991,949 | $1,638,879 | $393,554 | $(1,638,213) | $1,386,169 |
| | | | | | |
| LIABILITIES AND PARTNERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $— | $14,418 | $897 | $(230) | $15,085 |
| Intercompany accounts payable | 360,189 | — | — | (360,189) | — |
| Accrued interest | 1,625 | 198 | — | — | 1,823 |
| Deferred revenue | — | 8,820 | 5,451 | — | 14,271 |
| Accrued property taxes | — | 2,786 | 3,683 | — | 6,469 |
| Other current liabilities | 73 | 2,788 | 1 | — | 2,862 |
| Total current liabilities | 361,887 | 29,010 | 10,032 | (360,419) | 40,510 |
| | | | | | |
| Long-term debt | 296,416 | 555,000 | — | — | 851,416 |
| Other long-term liabilities | 133 | 13,085 | 156 | — | 13,374 |
| Deferred revenue | — | 26,432 | — | — | 26,432 |
| Class B unit | — | 25,082 | — | — | 25,082 |
| Equity - partners | 333,513 | 990,270 | 383,366 | (1,373,636) | 333,513 |
| Equity - noncontrolling interest | — | — | — | 95,842 | 95,842 |
| Total liabilities and partners' equity | $991,949 | $1,638,879 | $393,554 | $(1,638,213) | $1,386,169 |

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Balance Sheet

| December 31, 2013 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $2 | $1,447 | $4,903 | $— | $6,352 |
| Accounts receivable | — | 31,107 | 4,543 | (914 ) | 34,736 |
| Intercompany accounts receivable | — | 62,516 | — | (62,516 ) | — |
| Prepaid and other current assets | 234 | 2,590 | 1,050 | — | 3,874 |
| Total current assets | 236 | 97,660 | 10,496 | (63,430 ) | 44,962 |
| | | | | | |
| Properties and equipment, net | — | 564,847 | 392,967 | — | 957,814 |
| Investment in subsidiaries | 885,598 | 292,464 | — | (1,178,062 ) | — |
| Transportation agreements, net | — | 87,650 | — | — | 87,650 |
| Goodwill | — | 256,498 | — | — | 256,498 |
| Investment in SLC Pipeline | — | 24,741 | — | — | 24,741 |
| Other assets | 1,684 | 9,159 | — | — | 10,843 |
| Total assets | $887,518 | $1,333,019 | $403,463 | $(1,241,492) | $1,382,508 |
| | | | | | |
| LIABILITIES AND PARTNERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $— | $18,966 | $4,846 | $(914 ) | $22,898 |
| Intercompany accounts payable | 62,516 | — | — | (62,516 ) | — |
| Accrued interest | 10,198 | 41 | — | — | 10,239 |
| Deferred revenue | — | 6,406 | 7,575 | — | 13,981 |
| Accrued property taxes | — | 1,661 | 942 | — | 2,603 |
| Other current liabilities | 629 | 1,216 | — | — | 1,845 |
| Total current liabilities | 73,343 | 28,290 | 13,363 | (63,430 ) | 51,566 |
| | | | | | |
| Long-term debt | 444,630 | 363,000 | — | — | 807,630 |
| Other long-term liabilities | 99 | 14,338 | 148 | — | 14,585 |
| Deferred revenue | — | 21,669 | — | — | 21,669 |
| Class B unit | — | 20,124 | — | — | 20,124 |
| Equity - partners | 369,446 | 885,598 | 389,952 | (1,275,550 ) | 369,446 |
| Equity - noncontrolling interest | — | — | — | 97,488 | 97,488 |
| Total liabilities and partners' equity | $887,518 | $1,333,019 | $403,463 | $(1,241,492) | $1,382,508 |

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Comprehensive Income

| Three Months Ended September 30, 2014 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Revenues: | | | | | |
| Affiliates | $— | $64,200 | $3,562 | $(312) | $67,450 |
| Third parties | — | 12,218 | 2,462 | — | 14,680 |
| | — | 76,418 | 6,024 | (312) | 82,130 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 22,678 | 3,090 | (312) | 25,456 |
| Depreciation and amortization | | 11,855 | 3,628 | — | 15,483 |
| General and administrative | 273 | 1,993 | — | — | 2,266 |
| | 273 | 36,526 | 6,718 | (312) | 43,205 |
| Operating income (loss) | (273) | 39,892 | (694) | — | 38,925 |
| Equity in earnings (loss) of subsidiaries | 35,020 | (521) | — | (34,499) | — |
| Equity in earnings of SLC Pipeline | — | 880 | — | — | 880 |
| Interest expense | (5,067) | (3,518) | — | — | (8,585) |
| Other income | — | 11 | — | — | 11 |
| | 29,953 | (3,148) | — | (34,499) | (7,694) |
| Income (loss) before income taxes | 29,680 | 36,744 | (694) | (34,499) | 31,231 |
| State income tax expense | — | (42) | — | — | (42) |
| Net income (loss) | 29,680 | 36,702 | (694) | (34,499) | 31,189 |
| Allocation of net income attributable to noncontrolling interests | — | — | — | (1,509) | (1,509) |
| Net income (loss) attributable to Holly Energy Partners | 29,680 | 36,702 | (694) | (36,008) | 29,680 |
| Other comprehensive income (loss) | 1,109 | 1,109 | — | (1,109) | 1,109 |
| Comprehensive income (loss) | $30,789 | $37,811 | $(694) | $(37,117) | $30,789 |

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Comprehensive Income

| Three Months Ended September 30, 2013 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Revenues: | | | | | |
| Affiliates | $— | $62,903 | $2,930 | $(310) | $65,523 |
| Third parties | — | 10,644 | 1,556 | — | 12,200 |
| | — | 73,547 | 4,486 | (310) | 77,723 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 19,501 | 2,495 | (310) | 21,686 |
| Depreciation and amortization | — | 15,867 | 3,582 | — | 19,449 |
| General and administrative | 752 | 1,663 | — | — | 2,415 |
| | 752 | 37,031 | 6,077 | (310) | 43,550 |
| Operating income (loss) | (752) | 36,516 | (1,591) | — | 34,173 |
| Equity in earnings (loss) of subsidiaries | 30,890 | (1,191) | — | (29,699) | — |
| Equity in earnings of SLC Pipeline | — | 835 | — | — | 835 |
| Interest expense | (8,253) | (3,563) | — | — | (11,816) |
| Interest income | — | 2 | 1 | — | 3 |
| Gain on sale of assets | — | (159) | — | — | (159) |
| Other income | — | 61 | — | — | 61 |
| | 22,637 | (4,015) | 1 | (29,699) | (11,076) |
| Income (loss) before income taxes | 21,885 | 32,501 | (1,590) | (29,699) | 23,097 |
| State income tax expense | — | (40) | — | — | (40) |
| Net income (loss) | 21,885 | 32,461 | (1,590) | (29,699) | 23,057 |
| Allocation of net income attributable to noncontrolling interests | — | — | — | (1,172) | (1,172) |
| Net income (loss) attributable to Holly Energy Partners | 21,885 | 32,461 | (1,590) | (30,871) | 21,885 |
| Other comprehensive income (loss) | (1,097) | (1,097) | — | 1,097 | (1,097) |
| Comprehensive income (loss) | $20,788 | $31,364 | $(1,590) | $(29,774) | $20,788 |

HOLLY ENERGY PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Condensed Consolidating Statement of Comprehensive Income

| Nine Months Ended September 30, 2014 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Revenues: | | | | | |
| Affiliates | $— | $187,242 | $17,445 | $(925) | $203,762 |
| Third parties | — | 31,832 | 8,538 | — | 40,370 |
| | — | 219,074 | 25,983 | (925) | 244,132 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 65,008 | 8,752 | (925) | 72,835 |
| Depreciation and amortization | — | 36,136 | 10,817 | — | 46,953 |
| General and administrative | 1,916 | 6,017 | — | — | 7,933 |
| | 1,916 | 107,161 | 19,569 | (925) | 127,721 |
| Operating income (loss) | (1,916) | 111,913 | 6,414 | — | 116,411 |
| Equity in earnings (loss) of subsidiaries | 104,215 | 4,810 | — | (109,025) | — |
| Equity in earnings of SLC Pipeline | — | 2,150 | — | — | 2,150 |
| Interest expense | (17,765) | (9,603) | — | — | (27,368) |
| Interest income | — | 3 | — | — | 3 |
| Loss on early extinguishment of debt | (7,677) | — | — | — | (7,677) |
| Other income | — | 45 | — | — | 45 |
| | 78,773 | (2,595) | — | (109,025) | (32,847) |
| Income (loss) before income taxes | 76,857 | 109,318 | 6,414 | (109,025) | 83,564 |
| State income tax expense | — | (145) | — | — | (145) |
| Net income (loss) | | | | | |